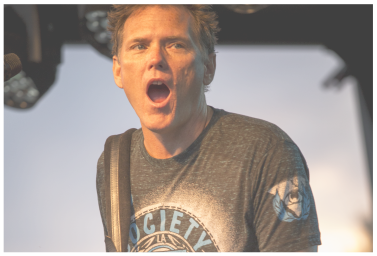

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR THE
FISCAL YEAR ENDING
SEPTEMBER 30, 2017

CITY OF
HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2017

Prepared by:

The Finance Department

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CITY OF HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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INTRODUCTORY SECTION

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FINANCE
1000 Highland Village Road
Highland Village, TX 75077
972-899-5089 F 972-899-5100
www.highlandvillage.org

March 26, 2018

Honorable Mayor, City Council
City of Highland Village
Highland Village, Texas

The Finance Department of the City of Highland Village is pleased to submit the Comprehensive Annual Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2017.

The report is published to provide the City Council, management staff, our citizens and other interested parties with detailed information concerning the financial condition and performance of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Highland Village. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The financial statements included in this report were prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). To demonstrate further public accountability, the independent accounting firm of Certified Public Accountants, Pattillo, Brown & Hill, L.L.P. whose report is included herein, has audited the City's financial statements.

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Highland Village's financial statements for the year ended September 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A) section, immediately following the independent auditor's report includes a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Highland Village, incorporated in 1963, is located in the southeastern portion of Denton County on Highway 407, west of Lewisville, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport. The City is primarily residential.

The City's estimated 2017 population is 16,102, just a 2% increase over the past 10 years. Years of sustained growth in population in previous years has brought the City closer to build-out, evidenced by

the reduced number of single-family residential permits now being issued. The City is currently approximately 95% built out, with approximately 290 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is 2025. Over the last five years, the City has averaged 18 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2016 Tax Roll was $339,320.

The City of Highland Village operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing council (City Council), consisting of a mayor and six other members, all elected at large. The Council appoints the City Manager, who in turn appoints the heads of the various departments. All council members are elected for two-year terms.

This report includes all funds and account groups of the City. The City provides a full range of services. These services include police and fire protection; the construction and maintenance of streets and infrastructure; recreational facilities and cultural events. In addition to general government administrative services, the City provides water, sewer and sanitation services. The City is also financially accountable for a legally separate component unit – the Highland Village Community Development Corporation, which is reported as a blended component unit within the City of Highland Village's financial statements (see Note 1A for additional information).

The Council is required to adopt a final budget by no later than September 30th – the close of the fiscal year. This annual budget serves as the foundation for the City of Highland Village's financial planning and control. The budget is prepared by fund, category (personnel, services/supplies, capital) and department (e.g., police, fire, human resources). Departments may reallocate resources within a category, but reallocation between categories or departments requires council approval.

Local Economy

The national economy has performed well with increased growth, with the North Texas economy continuing as a bright spot. In general, North Texas as a whole continues to experience substantial growth, with job creation at higher levels than much of the nation, as well as adding a number of corporate relocations to this area. The area housing market has grown steadily and existing homes have experienced increased value over the past few years. The close proximity of the Dallas-Fort Worth International Airport and both cities of Dallas and Fort Worth enhance increasing residential development. The average value of new construction residential permits was approximately $353,633. There were 21 single-family permits issued during fiscal year 2016/2017 for a total construction value of $10,608,993. In addition, there were 5,525 water connections, with 5,171 being the total residential. Since the City's residential tax base is a significant portion of its annual budget, these increases have the most significant impact on the City's ability to raise revenues to provide the services and conditions for future growth.

There were 21 commercial permits issued during the year for a total construction value of $3,438,410. Increased commercial development has certainly enhanced the business and economic outlook for the City. Over the past twenty years, the City has realized gradual economic development, beginning with the completion in 1995 of the 80,000 square foot Highland Village Town Center shopping complex. Phase II of this development was completed in October 1997. Kroger's grocery chain has been the anchor commercial development in the Town Center complex, however closing in FY 2016. The City is actively working with the complex owners to locate another anchor tenant to provide needed stability for remaining tenants in this development. Valley Ridge Center, a professional office complex on FM 407 was also added in 1997. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was completed in 1999. A merger with Independent Bank in 2012 further solidified the bank and now serves as the City's depository.

In January 1999, the City Council initiated implementation of an overlay ordinance for nonresidential development. This change was enacted to create a unique look for Highland Village by requiring a residential look to nonresidential uses. This effort was seen as an economic development issue to ensure quality future development. The completion of Village Parkway in 1998 in the western part of the City provides additional economic stimulus for the City - particularly now that TXDOT has constructed a segment that extends this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. And this, in turn, greatly enhances the commercial value of the developments at the FM 407 and FM 2499 intersection with the resulting increase in traffic.

Village Creek Center, started in the mid 1980's, added three new buildings in 1999 to complete their site plan. This center includes restaurant facilities and professional office space. In 2000, a two-building professional office development was completed and fully leased, with plans to expand by another building. Also in 2000, Tartan Village Retail Center opened with 6,000 square feet of retail space and Barnett Center constructed a childcare facility. The Barnett Center added an animal hospital in 2002 and a 56,000 square foot assisted living facility was added in 2003, with a 35,000 square foot extensive care addition completed the following year.

Celebrations, a 12,000 square foot banquet hall, was completed in 2003, updated in 2015 with new owners with addition of a chapel – transforming the facility to a wedding / reception facility. A 17,000 square foot retail center, Tartan Square, was added in 2004. Highland Village Business Park was completed, with two office / professional buildings totaling 16,000 square feet, in early 2005.

With limited remaining undeveloped commercial property in Highland Village – primarily located along FM 407 and FM 2499, the City focused on the remaining undeveloped property to ensure compatible, high-quality development. An additional overlay district was developed for this area to apply standards that will assure the highest and best use, with the potential for increased sales tax revenues while continuing to maintain the high quality of life in Highland Village.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity beginning in 2006. At the northeast corner of this intersection - the Marketplace at Highland Village, a 66-acre retail mixed-use development anchored by a 205,000 square foot Wal-Mart Super center, also including approximately 280,000 square feet of retail, office, and restaurants, saw some of its businesses open in October 2006, with the Wal-Mart store opening in November 2007. The Wal-Mart store is truly one-of-a-kind, with preservation of a 125 year-old pecan tree incorporated into the front entrance of the store.

On the northwest corner of the intersection, The Shops at Highland Village, a 45-acre development opened in September 2007. Barnes & Noble and an AMC Theater anchor the 380,000 square foot center, with upscale retail stores including Banana Republic, Victoria's Secret, as well as a variety of restaurants. The Shops at Highland Village is a pedestrian friendly, lifestyle shopping experience featuring fountains, outside dining areas, and pedestrian walkways – also connecting to the City's Inland Trail system. And the addition of Whole Foods in September 2014, further cements the vitality of this development.

Just east of the Marketplace, The District of Highland Village, initially approved by Highland Village City Council in March 2007, was planned as a "Main Street" center with retail and residential townhomes. Construction of the first phase was completed, but additional construction stalled due to the economic downturn. A redesigned plan was presented to City Council in FY 2011, but denied – prompting a lawsuit by the property owner based on the City's denial of the rezoning request. During the ensuing year, the City and its legal counsel thoroughly defended against the claims made in the lawsuit. City officials and staff worked diligently with the property owners to settle their dispute, resulting in approval by City Council in November 2012 of a new development plan to provide open air plazas for a mixed-

use development of residential lofts, retail, and office professional facilities, offering a unique and desirable high-end loft living lifestyle currently not available in Highland Village and adjacent cities. Construction initiated in 2014 and is ongoing.

The City is primarily a residential community with a relatively small commercial base. New residential construction has slowed from previous years, with substantial residential build-out expected in the near future. Roughly 290 potential lots remain, most of these associated with several developments in the western portion of the city, providing very modest residential building activity.

There are shopping areas with major retail department stores, variety stores and chain stores located in the general vicinity of Highland Village. Wholesale firms, distributing automobile parts and supplies, electronics, lumber, meats, plumbing fixtures, petroleum products and boat distributors are also located in the general vicinity. A plentiful supply of skilled labor is available to industry in the Highland Village area. Denton County reflected an unemployment rate of 3.1% as of September 2017.

Long Term Financial Planning

Economic Development, specifically retail development, continues to be a primary objective. This will not only provide desired amenities for residents' immediate access, but also an avenue to diversify the City's revenue stream that is highly dependent on property tax. This is especially pertinent as the City nears substantial residential build-out, and accompanying declining growth in assessed valuation. A stated focus of Council is to maintain the current tax rate. This, coupled with declining growth in assessed valuation, provides a challenge to maintain the high level of services provided for in this community. A continued primary focus over the next few years is to maintain current staffing levels through residential build-out while maintaining the City's excellent level of service.

Future water supply, pumping facilities, and wastewater treatment will also continue to be a focal point of meeting growth demands through build-out. Highland Village has contracted with the Upper Trinity Regional Water District (UTRWD) to take three million gallons of water per day (MGD). This water supply supplements the City's four productive water wells. A utility rate structure was updated to provide a 70/30 mix of surface water and ground water respectively. Additionally, the utility rate structure was revamped to provide for a substantially higher amount collected at the base level rather than the previous method of relying on higher summer usage with tiered rates. This will provide a more consistent revenue stream that is less dependent on weather patterns and fairer method of distributing costs to residents.

To meet the City's wastewater needs, a long-term solution was finalized in June, 1995, with 1.8 million gallons per day treatment contract with the Upper Trinity Regional Water District's Lakeview Wastewater Reclamation Project, which provided for a participatory contract to meet the City's build out wastewater effluent needs. In the initial stage of this contract, developer contributions (Impact Fees) have paid the bulk of the annual commitments with the existing ratepayers paying a minimal portion of the contract cost. The City's current capacity is at 1.65 MGD, but the City may reinstate the 1.8 MGD capacity at a future date, if needed. The subscribed capacities for both water and sewer are generally expected to be sufficient through build-out.

A municipal drainage utility was formed at the end of FY 2006 to fund a storm water quality program and related drainage projects necessitated by Phase II MS 4 Storm Water Regulations – administered by the Texas Commission on Environmental Quality (TCEQ). A rate of $1.20 per 1,000 square feet of impervious cover was established to fund this program – unchanged until FY 2015 when adjusted to $1.40. The monthly average for most City residents is roughly $5.00. The utility has a staff of five positions and has procured needed equipment. The utility has achieved great success, already completing a number of needed drainage projects - also achieving substantial cost savings by averting

contracting of these projects. In FY 2013, an aggressive mosquito abatement program was developed to address the significant increase in West Nile Virus, and is ongoing.

The City continues to address park programs to meet the changing needs of the community. The governing body adopted an ordinance in 1991 to establish Park Development Fees to be paid by the development community. These fees are dedicated to Park Development. This ordinance was revised in 1997 to collect fees for three components – community park, inland trail system, and neighborhood parks. Phase I of the development of Unity Park was completed and was utilized in full for athletic activity in early 1996. In September 1996, $1,850,000 in General Obligation Bonds was issued to complete Phase II of Community Park and provide improvements to other City parks. Phase II of the Park, completed in April 1997, includes lighting, restrooms and concessions. Additional parking and restroom enhancements were added in 2012 funded by a certificate of obligation. An inter-local agreement with the Lewisville Independent School District allows the City and Briarhill Middle School (adjacent to Unity Park) to share common facilities. Completion of Village Park in 2005 provided a neighborhood park in the western quadrant of the City.

An additional primary focus of the City has been the establishment of a comprehensive trail system throughout the City. The initial spine (9.83 miles) of the trail system was initiated with securing a $1 million TEA-21 grant. This was completed in 2006 with a cost of $1.7M. Voters approved a ½ cent 4B sales tax in November 2004 – specifically targeted for trail development and a soccer complex. All future development of the trail system is to be funded by the 4B sales tax. A $3M bond issue in 2008 provided funding for the next section – with another $3.8M bond issuance in FY 2009 to further expand the trail system in the City. A continuous trail segment now spans the length of the entire City. Ultimately, 28 miles of trails are envisioned in the Trail Master Plan.

The Doubletree Ranch property, 36 acres in the eastern portion of the City, was purchased in 2009 with funds from a certificate of obligation – with the associated annual debt service to be reimbursed to the City with 4B revenues. In FY 2014 a $6.7M Certificate of Obligation was issued to supplement remediation funds of $2.8M previously received from TxDOT associated with the loss of Copperas Branch Park resulting from the expansion of I-35 - to be redirected to Doubletree Ranch Park, to fund park construction. Accordingly, construction commenced in FY 2014. The Park substantially opened in August 2016, providing open space, trails, and soccer fields, in a pristine setting. In addition, a concession barn and pavilion are already heavily utilized, with a Splash Pad opening in May 2017.

Lakeside Community Park was completed in 2015, also utilizing 4B revenues. This park – with water front access to Lake Lewisville, includes a ¼ loop trail, two pavilions, all with fantastic lake views. A number of recreation programs are offered in the City. In particular, baseball and soccer associations have experienced consistent participation, and have remained quite successful.

Major Initiatives

The City's staff, following specific directives of the City Council and City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City's commitment to ensuring that its citizens are able to live and work in an enviable environment. The following are initiatives and programs relating to general governmental functions:

- Received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the submitted 2016 Comprehensive Annual Financial Report (CAFR).
- Received the GFOA Distinguished Budget Presentation Award for the Fiscal Year 2017 Budget.
- Secured and implemented collection services for Municipal Court and Utility Billing.

- Conducted an in-house utility rate study to determine revenue increase requirements as well as examining rate methodology options. A new rate structure was approved by Council that accommodated the necessary revenue requirements. Residents were provided with information throughout the summer months, with the changed implemented with the October billing.
- The City's Financial Policies were updated to reflect best practices, inclusive of desired City objectives.
- A Debt Policy was developed and implemented in conjunction with the Financial Policies.
- Marketing for the Fallen Officers Bike Race and 5K and Restaurant Week received the TAMI Award for Best Recurring Special Event as well as the 3CMA Silver Circle Award for Marketing. This is a testament to the consistent branding and marketing of the event. The work continued this year with a focus on social media to increase participation, awareness, and contributions to the Fallen Officer Fund.
- Installed new TelVue equipment and software for better graphics to communicate through the PEG TV channel, HVTV. Video playback and scheduling is now possible via remote access.
- Visited Highland Village businesses to bring awareness of the HVBA and how we can assist local businesses. The HVBA continues to experience membership growth.
- Continued relationships with the Lewisville Area Chamber of Commerce and the Flower Mound Chamber of Commerce through participation in the Lewisville Leadership Steering Committee, Lewisville Government Affairs meetings, service on the Flower Mound Board of Directors, and chairperson for the Flower Mound Chamber Education Committee which includes participation in the LISD Business Partnership Committee.
- Council approved the establishment of a Retiree Health Savings (RHS) benefit in Fiscal Year 2017. Educational sessions were scheduled with each department to explain the program and benefits. The RHS was implemented in January and received with much employee appreciation.
- Proactively responded to over 288 requests from the public for City records made through the Public Information Act (Open Records). In an effort to expedite the processing of requests and preserve paper, requests can be made electronically and responsive records are provided electronically whenever possible.
- To facilitate cost savings, the City has a joint contract with Denton County to have Denton County Elections conduct all City elections, therefore sharing the election costs with other entities also contracting with Denton County Elections.
- Organized the volunteer application process for Council appointments of members to the City's Boards and Commissions.
- Organized an Orientation and Training Workshop for Board and Commission members.
- Organized the nonprofit organization application process for Council's presentation of grants for services to the residents of the City.
- In compliance with the Texas State Library Archives and Commission Records Retention Schedule, conducted the annual purge of City documents to reduce off-site storage costs.
- Completed the Public Safety Computer Aided Dispatch (CAD) software installation.
- Completed upgrades to the City's alarm and door security software.
- Removed and installed new rugged tablets for the Police Department and laptops for the Fire Department.
- Installed and configured new Wi-Fi hotspots in all Public Safety vehicles.
- Upgraded and migrated the Police Department body camera software.
- Upgraded the Ethernet cabling in the Police Department while relocating and reconfiguring the switches from the utility closet to the radio room in the Communications Center.
- Created SQL reports for Permits and Finance to reconcile permit payments.
- Implemented a new online permit portal.
- Upgraded the online map portal so that it will work with multiple internet browsers.
- Worked with Frontier to provide cost effective Wi-Fi for Doubletree Ranch Park.
- Upgraded and migrated the City's document management database repository and software.

- Upgraded and reconfigured the City's phone software and reconfigured the phone switches to provide rollover capability in the event of a switch failure.
- Created a secure file transfer protocol for large files to be sent to the City Attorney's office to review Open Records.
- Implemented a new project management software for multi-departmental Information Services projects.
- In partnership and cooperation with the Fire Department, an Emergency Care Attendant (ECA) Program for all Patrol Officers was implemented. A total of 20 Police Officers completed the ECA training and future personnel will also complete the program as training permits. The program provides first responder training and certification in basic life support and emergency field techniques, proper patient stabilization, and care until EMS personnel with a higher level of care arrive. Police SUV's make this program possible with their extra storage capacity to carry specialized ECA equipment worth around $2,000, including medical bags and Automated External Defibrillator's (AED's).
- Transition to the new ICS Computer Aided Dispatch/Records Management System (CAD/RMS) is complete. This upgrade allows for more efficient use of Police and Fire resources, better reporting, and future data-sharing. It also helps us monitor compliance with NFPA 1221 standards requiring 95% of emergency calls to be dispatched within 60 seconds and 99% to be dispatched within 90 seconds. These efforts resulted in our Public Safety Communications Center to achieve a 33 second average received to dispatch time for Fiscal Year 2017 - 2018.
- The installation and switch to new replacement Motorola mobiles, portables, and dispatch radio console systems has been completed. These upgrades addressed critical safety issues for Police and Fire personnel by reducing radio dead spots, providing comprehensive radio coverage throughout our operational area, improving interagency communications, and allowing for individually issued portable radios.
- Began the second year of an $800,000, four year agreement with The Shops at Highland Village. This agreement funds two Police Officer positions at no cost to the City and provides continued use of the existing Police Substation located at The Shops at Highland Village. Since its inception, the program has averaged 379 hours a month and has been very successful in keeping crime low and increasing positive officer interactions with our local business community.
- Through an Equitable Sharing Grant with the Denton County Sheriff's Department, the Police Department purchased a Mentalix Live Scan Fingerprint System. This system allows officers to quickly obtain and process fingerprints and accurately identify criminal suspects.
- This past year the Police Department helped raise over $35,000 at the Fallen Officers Bike Race and 5K, with all proceeds going to the Texas Police Chiefs Association's Fallen Officer Fund. The Fund provides monetary assistance to families of Police Officers killed in the line of duty in Texas.
- The Police Department is committed to fundraising and educational awareness for Special Olympics Texas. In Fiscal Year 2017, the Police Department helped raise over $70,000 through numerous events including Steaks and Stetsons, shirt sales, Tip-A-Cop, and community car washes. Personnel participated in both the spring and summer games held at the University of Texas at Arlington.
- The annual toy drive is estimated to have brought in nearly $45,000 in gifts for Denton County children and families in need.
- Replaced the 2009 Mobile Intensive Care Unit (MICU/Ambulance) with a new MICU.
- Attained specialized medical training for all personnel in Advanced Cardiac Life Support.
- Improved local mutual aid agreements, reduced the response times of the mutual aid companies, and conducted joint training with mutual aid departments.
- Trained 20 Police Officers as part of the Emergency Care Attendant (ECA) Program.

- Installed Automated External Defibrillator's (AED's) in all Police vehicles, city buses, sports fields, and city buildings.
- Continued the implementation of CityWorks Permitting, Licensing, and Land (PLL) program. Permits are being entered electronically, thus enhancing the process by making it more streamlined and transparent.
- Registered 1,300 contractors, an increase to previous Fiscal Years in which there were approximately 622 contractors registered.
- Code Enforcement worked with approximately 1,100 properties on various code violations such as drainage and erosion control, cleanliness of construction sites, high grass, fences, parking issues, signage, and outside storage.
- Switched to an automated school zone flasher system.
- Completed an inventory and GIS mapping of all asphalt streets including a condition index rating using the standard manual survey method.
- With the addition of a new crack seal machine, preventive maintenance increased placing over 10,000 pounds of material in 2017.
- Replaced the fire alarm system at the Municipal Complex which will result in an annual cost savings of $6,000.
- Began the installation of a dry fire suppression system in the server room in the Public Works building.
- Completed the construction of Doubletree Ranch Park and Unity Dog Park.
- Installed security cameras at the Doubletree Ranch Park barn and pavilion buildings with the assistance of our Information Services Department.
- Purchased a laser grader to use at Unity Park to eliminate yearly expenses related to paying a contractor to perform the task.
- Assisted TxDOT with the installation of a self pay station at Copperas Branch Park.
- Installed a new Light Guard Enhanced Crosswalk from the Robert & Lee DuVall Center to the Highland Village Tennis Center.
- Performed a hydraulic study of the watershed surrounding Unity Park.
- Maintained the water and wastewater systems per TCEQ mandates and maintained the Outstanding Drinking Water System Award from TCEQ.
- Maintained the Fire Hydrant Maintenance Program per TCEQ mandates and ISO rating standards. As part of the program, sandblasted and painted over 400 fire hydrants.
- Full time Utilities Division employees attended over 650 training hours.
- All employees obtained, or maintained, licenses above and beyond their job description.
- Excavated and repaired 57 water main breaks, service line leaks, and sanitary sewer line breaks.
- Smoke tested and repaired 20% of the sanitary sewer lines.
- Rehabilitated all lift station pumps to restore pumping efficiency.
- Maintained and renewed the City's MS4 Storm Water Permit through TCEQ.
- Continued the mosquito trapping, prevention, and West Nile Virus testing program with no West Nile Virus cases located in the City.
- Responded to the spring flooding events and maintained all infrastructure with no failures or wastewater overflows.

Relevant financial policies

The City's financial policies address accounting and fiscal operations of the City with emphasis on asset management, operating reserves and fund balances. The City has established policies to maintain a fund balance equivalent to at least 20% of General Fund expenditures. Accordingly, fund balance levels have remained above this level. Ending fund balance was 37% in FY 2012, 34% in both FY 2013 and FY 2014, 32% in FY 2015, 37% in FY 2016, and 47% in FY 2017. Financial policies

provide for one-time or non-recurring revenues not being used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes. Fund balance levels are currently higher than anticipated to be necessary on an on-going basis. Financial policies call for the City to maintain a fund balance within a range of 20% -25%. A gradual plan is intended to reduce fund balance levels to this range – specifically by funding capital items with excess reserves. A continuing priority is to ensure sufficient revenues are available for the level of operating expenditures.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its comprehensive annual financial report for the fiscal year ended September 30, 2016. This was the twenty-fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

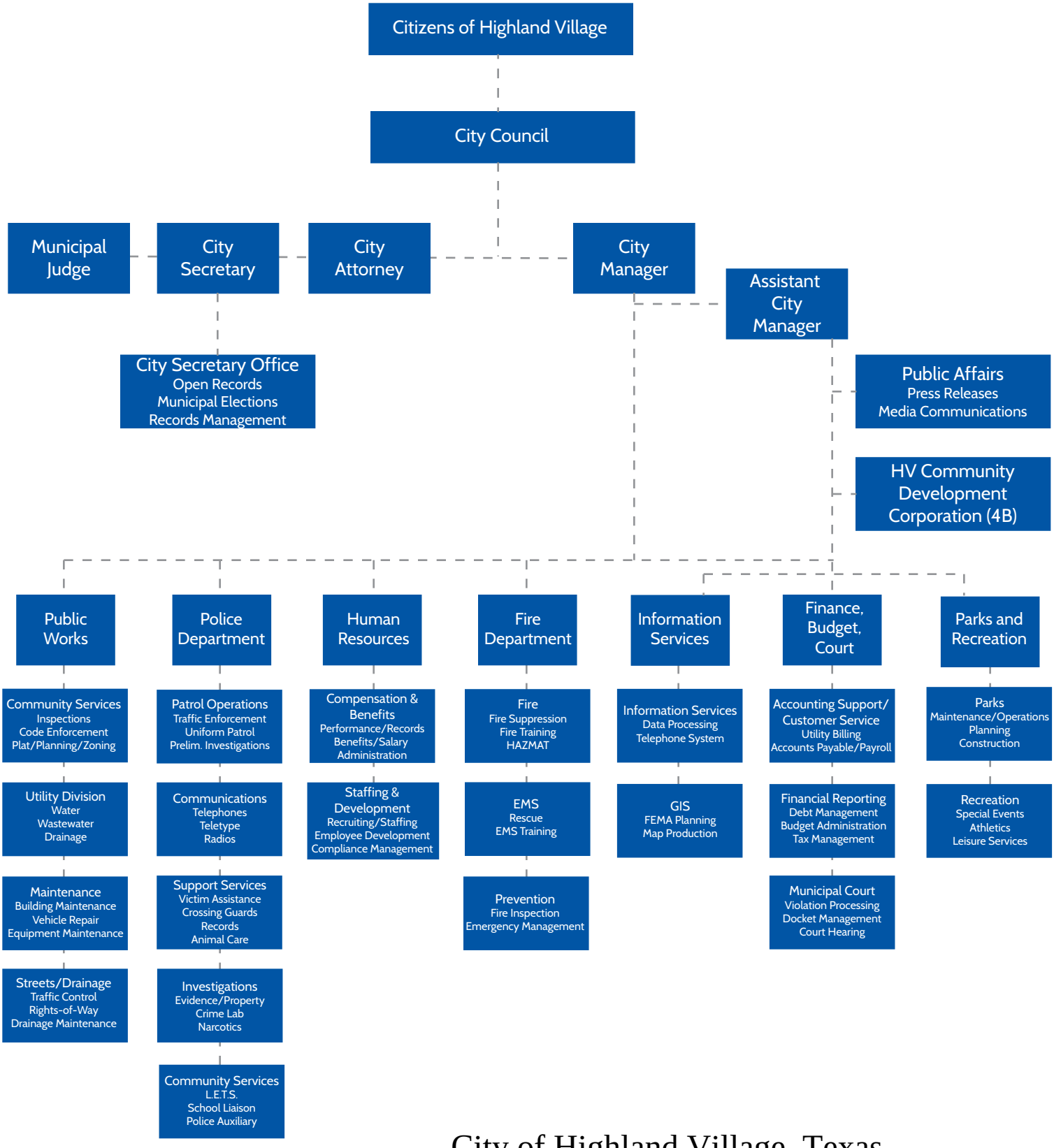
In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year 2017– the City's eleventh consecutive receipt of this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the finance department. Thanks especially to Heather Miller for her hard work toward the completion of this document and continued commitment to excellence in accounting standards. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the City Council of the City of Highland Village, preparation of this report would not have been possible.

Sincerely,

Ken Heerman
Assistant City Manager



City of Highland Village, Texas
Organizational Chart
Fiscal Year 2016 - 2017

CITY OF HIGHLAND VILLAGE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OCTOBER 1, 2016 – SEPTEMBER 30, 2017

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		Term Expires
Charlotte Wilcox, Mayor	Place 1	05/2018
Michelle Schwolert, Mayor Pro Tem	Place 2	05/2018
Mike Lombardo	Place 3	05/2019
Barbara Fleming, Deputy Mayor Pro Tem	Place 4	05/2018
Fred Busche	Place 5	05/2019
John McGee	Place 6	05/2018
Daniel Jaworski	Place 7	05/2019

ADMINISTRATIVE

Michael Leavitt	City Manager
Angela Miller	City Secretary
Ken Heerman	Assistant City Manager
Scott Kriston	Director of Public Works
Doug Reim	Police Chief
Brad Goudie	Fire Chief
Jana Onstead	Human Resources Director
Phil Lozano	Director of Parks and Recreation
Sunny Lindsey	Information Services Director
Laurie Mullens	Director of Communications and Marketing

Prepared by:
City's Finance Department

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Highland Village Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Executive Director/CEO

FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and City Council
City of Highland Village, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Highland Village, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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401 West Highway 6
Waco, Texas 76710
254.772.4901
www.pbhcpa.com

HOUSTON, TX
281.671.6259

RIO GRANDE VALLEY, TX
956.544.7778

TEMPLE, TX
254.791.3460

ALBUQUERQUE, NM
505.266.5904

AICPA
Governmental Audit Quality Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the City of Highland Village Texas' fiscal year 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Changes in the City's Net Pension Liability and Related Ratios and the Schedule of City Contributions, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Village, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, capital asset schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, and capital asset schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules, and capital asset schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the City of Highland Village, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the City's effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Highland Village, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 26, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Highland Village exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $53,895,296. Of this amount, $5,329,063 may be used to meet the government's ongoing obligations to citizens and creditors.

- The City of Highland Village's total net position increased by $1,107,956. A $1,883,505 increase in net position related to governmental activities was offset by a decrease of $775,549 in net position in business-type activities.

- As of September 30, 2017, the City of Highland Village's governmental funds reported combined ending fund balances of $8,658,343, an increase of $1,253,100 in comparison with the prior year. Approximately 61 percent of this total amount, $5,248,582, is available for spending at the government's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $5,248,582, or 34 percent of total General Fund expenditures.

- The City of Highland Village's total debt decreased by $2,835,000 during the current fiscal year. A key factor in this decrease was the scheduled debt payments for the governmental activities and business-type activities of $2,015,000 and $905,000, respectively. The City also issued $6,485,000 in general obligation refunding bonds refunding debt issued by the governmental activities and business-type activities of $4,405,000 and $3,995,000, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis are intended to serve as an introduction to the City of Highland Village's basic financial statements. The City of Highland Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Highland Village's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Highland Village's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Highland Village is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in the governmental fund financial statements.

In the Statement of Net Position and the Statement of Activities, the City is divided between two kinds of activities:

> **Governmental activities**. Most of the City's basic services are reported here, including the police, fire, community development, public works, information services, park services, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.
>
> **Business-type activities**. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and drainage utilities are reported here.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Highland Village maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Highland Village Community Development Fund, all of which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's Enterprise Fund (a component of proprietary funds) is identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

The City of Highland Village maintains an Enterprise Fund to account for water and sewer services provided to the City's retail and wholesale customers. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highland Village's budgetary comparison schedules and its progress in funding its obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was $53,895,296 as of September 30, 2017. Analyzing the net position of governmental and business-type activities separately, governmental activities' net position was $45,018,950 and business-type activities' net position was $8,876,346. This analysis focuses on the net position (Table 1), and the changes in net position (Table 2).

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE 1

CITY OF HIGHLAND VILLAGE'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 9,757,476	$ 9,034,419	$ 4,712,949	$ 5,109,008	$ 14,470,425	$ 14,143,427
Capital assets	62,230,638	63,822,761	16,666,353	17,682,435	78,896,991	81,505,196
Total assets	71,988,114	72,857,180	21,379,302	22,791,443	93,367,416	95,648,623
Deferred outflows of resources	2,360,723	2,786,120	369,313	436,554	2,730,036	3,222,674
Long-term liabilities	25,240,996	27,223,194	10,856,498	11,605,742	36,097,494	38,828,936
Other liabilities	3,908,092	5,122,701	1,970,292	1,950,363	5,878,384	7,073,064
Total liabilities	29,149,088	32,345,895	12,826,790	13,556,105	41,975,878	45,902,000
Deferred inflows of resources	180,799	161,960	45,479	19,997	226,278	181,957
Net position:						
Net investment in capital assets	40,453,356	40,067,568	6,603,211	6,738,242	47,056,567	46,805,810
Restricted	657,690	1,062,313	851,976	883,399	1,509,666	1,945,712
Unrestricted	3,907,904	2,005,564	1,421,159	2,030,254	5,329,063	4,035,818
Total net position	$ 45,018,950	$ 43,135,445	$ 8,876,346	$ 9,651,895	$ 53,895,296	$ 52,787,340

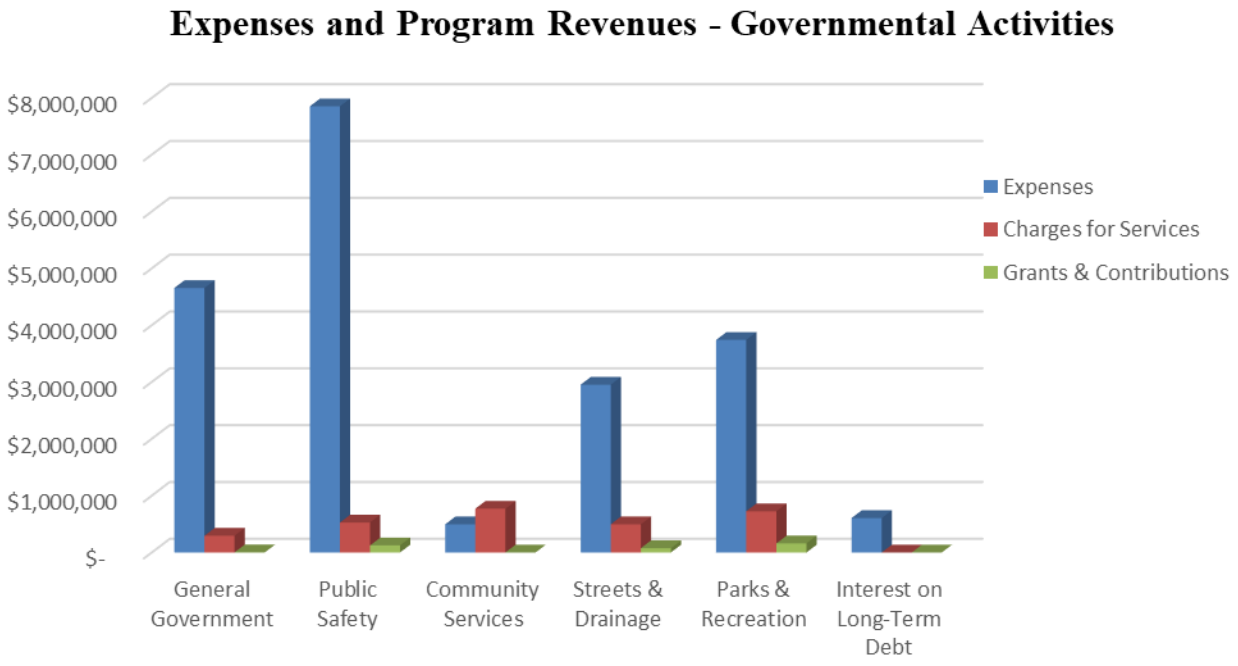
The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2017. Governmental activities increased the City's net position by $1,883,505 while business-type activities decreased the City's net position by $775,549, resulting in a net $1,107,956 increase in total net position.

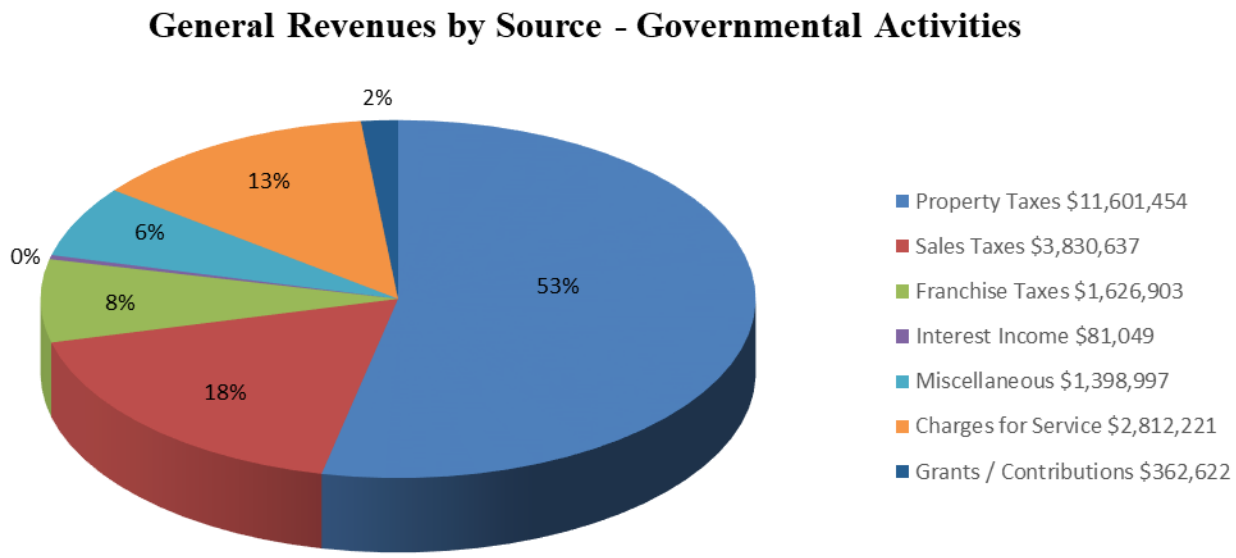
TABLE 2

CITY OF HIGHLAND VILLAGE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 2,812,221	$ 2,409,225	$ 8,224,755	$ 8,011,036	$ 11,036,976	$ 10,420,261
Operating grants and contributions	126,776	44,839	-	-	126,776	44,839
Capital grants and contributions	235,846	221,974	141,554	911,608	377,400	1,133,582
General revenues:						
Property taxes	11,601,454	10,876,727	-	-	11,601,454	10,876,727
Sales taxes	3,830,637	3,786,900	-	-	3,830,637	3,786,900
Franchise fees	1,626,903	1,658,700	-	-	1,626,903	1,658,700
Interest income	81,049	54,786	26,664	19,201	107,713	73,987
Gain on sale of asset	-	-	-	-	-	-
Miscellaneous	1,398,997	83,908	-	-	1,398,997	83,908
Total revenues	21,713,883	19,137,059	8,392,973	8,941,845	30,106,856	28,078,904
Expenses:						
General government	4,654,057	4,392,360	-	-	4,654,057	4,392,360
Public safety	7,850,784	7,782,368	-	-	7,850,784	7,782,368
Community services	495,494	446,470	-	-	495,494	446,470
Streets and drainage	2,953,293	2,826,584	-	-	2,953,293	2,826,584
Parks and recreation	3,740,883	3,534,661	-	-	3,740,883	3,534,661
Interest on long-term debt	605,867	699,315	-	-	605,867	699,315
Water and wastewater	-	-	8,698,522	8,500,825	8,698,522	8,500,825
Total expenses	20,300,378	19,681,758	8,698,522	8,500,825	28,998,900	28,182,583
Increases in net position before transfers	1,413,505	(544,699)	(305,549)	441,020	1,107,956	(103,679)
Transfers	470,000	(1,709)	(470,000)	1,709	-	-
Change in net position	1,883,505	(546,408)	(775,549)	442,729	1,107,956	(103,679)
Net position, beginning	43,135,445	43,681,853	9,651,895	9,209,166	52,787,340	52,891,019
Net position, ending	$ 45,018,950	$ 43,135,445	$ 8,876,346	$ 9,651,895	$ 53,895,296	$ 52,787,340

Governmental activities. The City's expenses for governmental activities are detailed below – with associated program revenues.





Net position associated with governmental activities increased $1,883,505 in FY 2017 – this compared to a $546,408 decreased in net position in FY 2016.

- FY 2017 revenues increased $2,580,242 from the previous year. Key elements of this increase is as follows:

    - Property taxes increased by $724,727 during the year. Most of this increase is the product of a 4.9% increase in the taxable assessed value of the property.

    - Sales tax revenue increased by $43,737 reflecting consumer spending remaining steady for the City's retail developments.

    - Charges for services increased by $402,996. This increase is contributed by a police service contract with the Shops at Highland Village that was effective January 2016, an increase in building permit revenues related to a hail event which resulted in increase contractor registration and roofing permitting, and an increase in facility rentals related to the opening of the Doubletree Ranch Park.

    - Operating grants and contributions increased $81,937. This increase is attributed to the police department receiving $49,285 in drug forfeiture funds and the fire department receiving $27,909 in mutual aid reimbursement related to Hurricane Harvey.

    - Miscellaneous revenue increased $1,315,089 from the previous year mainly from insurance recoveries received from hail damage experienced on City facilities and vehicles.

- FY 2017 expenses increased $618,620 from FY 2016, reflecting inflation and increased service demand. The total expense amount of $20,300,378 was less than total revenues – creating a $1,413,505 increase before transfers. This compares to a $544,699 decrease in FY 2016.

    - General government expenses increased by $261,697 related to:

        - City manager expenses increased $59,888 partly due to an increase in employee benefits. Additionally, expenses were incurred for consulting fees regarding property and market research performed on the Highland Village Town Center.

        - Maintenance experienced a $58,046 increase in expenses over prior year. This increase is mainly due to repairs on vehicles damaged from hail.

        - Information services expenses increased $142,141 due to an addition of a full time employee.

    - Public safety expenses increased $68,416 partially attributed to an increase in depreciation expense due to recent purchases of capital assets and personnel cost related the rise in pension and health insurance costs.

    - Community services expenses increased by $49,024 primarily due to overtime rate being paid to fire personnel assisting with roof inspections.

- Street and drainage expenses reflected an increase of $126,709 partly contributed to an increase in employee benefits. Additionally, engineering services related to a street overlay project initiated in the current year.

- Parks and recreation expenses increased $206,222 primarily due to an increase in depreciation expense related to Doubletree Ranch Park.

- Interest on long-term debt decreased by $93,448 as a result of refunding bonds in both current and prior year.

Business-type activities: Business-type activities reflected a $775,549 decrease in the City's net position – this compared to a $442,729 increase in net position in FY 2016. Overall, expense and transfers exceeded revenue.

- Charges for service increased $213,719 from last year's total of $8,011,036. Water sales remained constant from the previous year. This increase is primarily the result of higher sewer sales. Increased water usage during the winter months of 2016 resulted in a higher average basis utilized to determine sewer amounts (average usage over four winter months is used to determine a maximum billing usage in effect for the following year - with intent of excluding irrigation usage in summer months).

- Capital grants and contributions decreased $770,054 due to a decreased collection of impact fees (collected at time of building permit) of $78,008 and water and sewer capital improvements of $692,045 contributed in the previous year by the developer of the Wichita Estates subdivision.

- Expenses increased $197,697 from last year. An increase in personnel expenses of $200,555 is related to planned salary increases and the rise of pension and health insurance costs. Also, engineering fees increase by $85,413 related to water and wastewater delivery study to the Northwest portion of the City and an inflow and infiltration study. Well lot maintenance increased $168,818 as a result of repairs required at the Southwood well. These increases are offset by reductions in utility costs of $48,422, sewer line maintenance cost of $39,763, and water treatment costs of $154,410.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $8,658,343 an increase of $1,253,100 in comparison with the prior year. Approximately 61 percent of this total amount, or $5,248,582, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is not available for spending because it has already been restricted - $765,290, committed - $501,093, assigned - $2,142,128, or non-spendable - $1,250.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $5,248,582, while total fund balance was $7,391,960. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34 percent of total General Fund expenditures, while total fund balance represents 47 percent of that same amount.

The original budget for FY 2017 reflected a $315,200 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. Revenues exceeded the budgeted amount by $1,573,055, while expenditures in FY 2017 fell below the budgeted amount by $749,608. These variances comprised the majority of the increase in fund balance of $382,894. Key factors affecting fund balance are as follows:

- Total General Fund revenues of $17,329,704 were increased from FY 2016 by $2,303,845.
    - Taxes reflected a $715,099 increase from FY 2016.
        - Property tax revenue increased $714,005 largely resulting from a 4.9% increase in assessed valuation.
        - Sales tax revenue increased $32,894, while franchise fees decreased $31,798.
    - Licenses, permits and fees increased $264,574, largely related to increased permits of $246,304 largely due to roof permits and contractor registration fees resulting from a significant hail storm that encompassed the entire city in Spring 2017.
    - Intergovernmental revenues decreased $113,070 due to FY 2016 reflecting remaining grant proceeds from Denton County related to landscaping of FM 2499 median and FEMA reimbursements received related to street damage caused by the floods in spring of 2016.
    - Charges for service increased by $93,926 over last year, resulting from $17,205 increased contribution from Denton County regarding fire service support for unincorporated areas in Denton County, increase of $19,789 for billed EMS fees, and $56,932 increase in the police services contract for The Shops of Highland Village.
    - Miscellaneous revenues experienced a $1,315,089 increase due to receipt of $1.1M insurance proceeds related to City facilities damaged with hail storm in Spring 2017.
- Total General Fund expenditures of $15,590,245 represent an increase of $892,997 from the previous year. The FY 2017 actual expenditures were $749,608 below the original budgeted amount.
    - Personnel expenditures increased $610,561 from FY 2016. Salaries increased $334,865 resulting from across the board salary increases of 4%.Benefits increased $275,696 primarily related to higher premiums for medical insurance coverage.

- Services / Supplies expenditures increased by $194,498.

    - Capital lease payments increased $129,070 with the addition of a lease-purchase agreement to acquire a new ambulance.

    - Maintenance Department outside contract repairs increased $73,170 primarily related to repair of damage from the hail storm.

    - Buildings and Grounds Maintenance increased $31,370 resulting from replacement of the City Hall fire alarm system as well as facility repairs and upgrades to the Fire Station.

    - Tools and Equipment reflected a decrease of $35,245 related to Public Safety purchases in FY 2016 that were not repeated: Police Department replacement of weapons in FY 2016 and Fire Department equipment associated with purchase of new Command Staff vehicles in FY 2016.

  - Capital Outlay expenditures increased by $87,938 in FY 2017, primarily related to Street Department acquisitions of a crack sealer and utility truck.

- Total Other Financing Sources (Uses) reflected a net total of $196,276 – a $141,933 increase from FY 2016. Base elements of this total include transfers-in of $470,000, $28,000, and $16,000 respectively, from the Utility Fund, Highland Village Economic Development Corporation and Drainage Utility Fund for support functions provided by the General Fund, as well as a transfer-in of $18,339 from the Public Safety Fund related to Child Safety Fees,. Also included is a $37,053 transfer from the Public Safety Fund related to Texas Department of Emergency Management reimbursement for Fire Department assistance with Hurricane Harvey to partially offset personnel cost paid from the General Fund. These transfers-in were offset by transfers to the Drainage Utility Fund of $16,000 for the City's drainage fees and $250,000 to fund the purchase of a gradall, a transfer-out of $13,845 to the Capital Project fund to supplement the cost of the Sellmeyer Lane improvements, and a transfer-out of $93,271 to the Park Development Fund to supplement the cost of constructing the Unity Dog Park.

The Debt Service Fund has a total fund balance of $161,180, an increase of $20,122, all of which is restricted for the payment of debt service.

The Highland Village Community Development Fund has a total fund balance of $106,954, a $644,892 decrease from FY 2016. In FY 2014, the City issued $6.7M of debt primarily earmarked for the construction of Doubletree Ranch Park. Accordingly, expenditures relating to the completion of construction of the park are the primary reason for the decrease in FY 2017.

Remaining governmental funds reported a combined ending fund balance of $998,249, reflecting a decrease of $57,865.

- Revenues for these funds reflected an increase of $172,400 from the previous year, largely related to a received FEMA reimbursement for repairs associated with flooding.

- Combined expenditures decreased $1,433,767. The decrease is primarily related to capital expenditures in FY 2016, associated with improvements of the Radio System and Dispatch Center and the reconstruction of a segment of Sellmeyer Lane.

Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

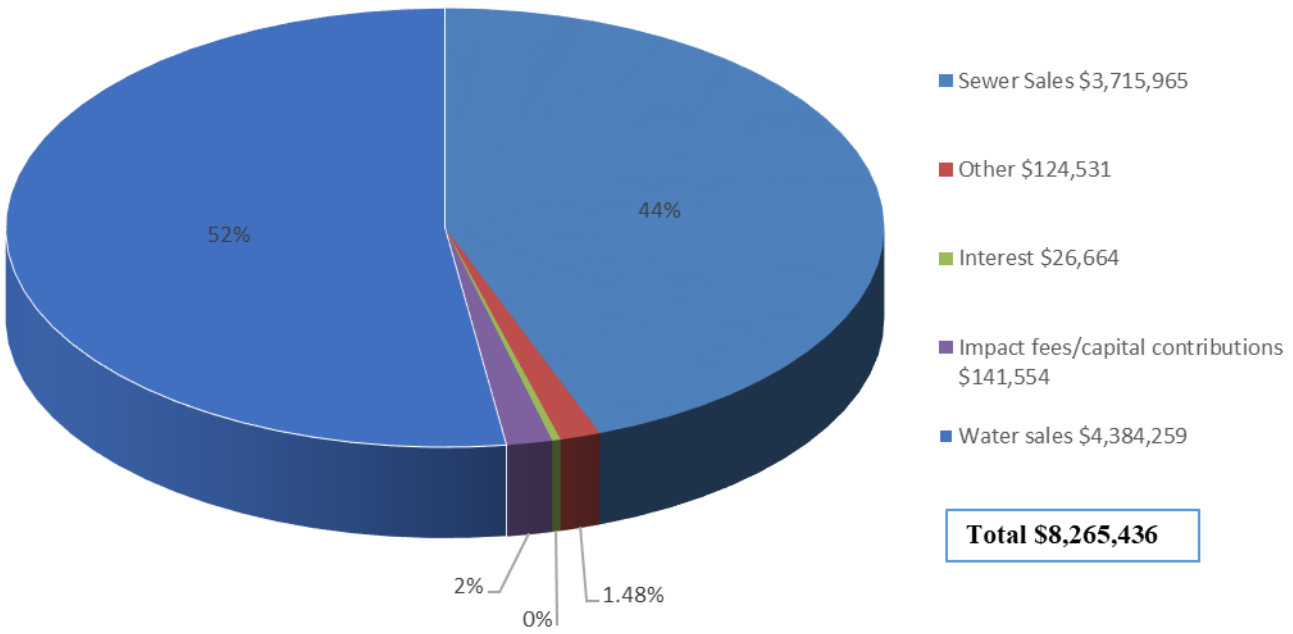
Net position in the Enterprise Fund totaled $8,876,346 at the end of the fiscal year 2017, a decrease of $775,549, or 8.0%.Included in net position is $851,976 restricted for capital projects and unrestricted net position of $1,421,159. The remaining net position balance of $6,603,211 consists of net investments in capital assets.

- Utility operating revenues of $8,224,755 reflected an increase of $213,719 or 2.7%, in FY 2017.

  - Water sales decreased $2,321.

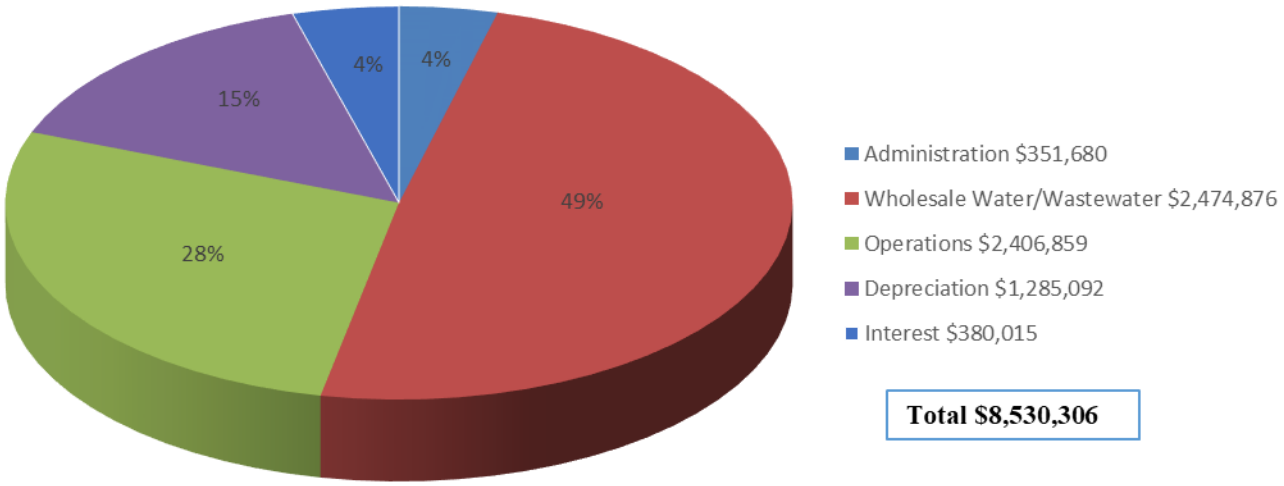
  - Sewer sales increased $199,234.

Total Revenues - Business-Type Activities



- Utility operating expenses of $8,318,507 increased $347,148, or 4.4%.
    - Administration expenses increased $40,129 in FY 2017.
    - Maintenance and Operations increased $192,163.
        - Wholesale water / sewer treatment cost decreased $128,641.
        - Personnel expenses increased $200,555.
        - Services and supplies increased $120,249 primarily due to maintenance required at the Southwood well lot and engineering services related to a service delivery study for the northwest portion of the City. These increases are offset by reductions in utility costs, sewer line maintenance cost, and water chemicals.
- Depreciation increased in FY 2017 by $114,856.

Total Expenses - Business-Type Activities



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2016-2017, the City Council of the City of Highland Village amended the budget for the General Fund on one occasion, resulting in an increase in budgeted expenditures of $1,915,223. The majority of these appropriations relate to actions taken to fund unbudgeted items during the fiscal year, including the acceptance of grants during the year.

Staff reviewed each supplemental appropriation throughout the year and determined that revenues provided sufficient reserves to recommend their increase. All budget amendments presented had either offsetting reductions or sufficient available fund balances reserves.
For fiscal year 2016-2017, actual expenditures on a budgetary basis were $15,590,245. This total was less than the original budgeted expenditures of $16,339,850 by $749,608, however $2,664,831 below the revised budget. The supplemental requests approved during the year are summarized following:

- Personnel expenditures increased by a total of $48,640 which consists of increases in City Manager ($38,640), City Secretary ($20,000), Fire ($50,000), Community Services ($45,000), Parks ($40,000) and Recreation ($5,000) Departments, offset by decreases in the Human Resources ($80,000), and Police ($70,000) Departments.

- Services and supplies expenditures increased in total by $506,360 which consists of the following amendments:

    - City Manager - Decreased $38,640 due to no identified need for use of contingency provision.

    - Information services - Increased $225,000 to reclassify appropriation for security camera replacement, originally budgeted as a capital item.

    - Streets – Increased $200,000 for street overlay project carried over from FY 2016.

    - Maintenance - Increased $110,000 related to repairs of fleet damaged by hail storm.

    - Recreation – Increased $10,000 for increased expenditures associated with increased participation in the Kids Kamp program.

- Increased Capital Outlay in total by $1,360,223 which consists of the following amendments:

    - Information services – Decreased $130,000 related to security cameras, as it was reclassified to services / supplies category within department.

    - Police – Increased $140,000 related to replacement of three hail damaged vehicles.

    - Fire – Increased $267,500 recording purchase of new ambulance financed by a capital lease that was budgeted in FY 2016 but received in FY 2017.

    - Streets – Increased $45,000 related to purchase of a utility vehicle.

    - Maintenance – Increased $1,037,723 for provision of roof replacements for City facilities that were damaged by hail storm (to be offset by insurance proceeds).

Actual revenue on a budgetary basis was $17,329,704 compared to the original budget of $15,756,649, providing a positive variance of $1,573,055. Actual tax revenues were $130,470 less than the budget amount. This was offset by collected licenses, permits and fees being $382,363 more than originally budgeted, largely due to increased roof permits. Also, actual miscellaneous revenues were $1,269,147 above the original budget primarily due to receipt of insurance proceeds related to hail damage to City facilities and vehicles.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2017, amounted to $78,896,991 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges, water and sewer lines, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

Project	Amount
Double Tree Ranch Park	$2,508,759
Sellmeyer Lane Improvements	844,189
Highland Village Rd Water Line Replacement	752,976
Unity Dog Park	312,092
Dispatch and Radio System Consoles	309,676
Canyon Creek Drainage Improvements	286,510
2017 Gradall	259,700
2016 Ford F450 - Ambulance	250,780
2017 Ford F550 Supercab	124,731
2017 Isuzu Flusher Truck	123,259
Remington Trail to Highland Village Rd	74,799
Dispatch Center Console	63,189
2017 Ford F350 Supercab	50,969
Komatsu Mini Excavator	46,792
2017 Ford F350	44,024
Boat Dock Extension at Pilot Knoll	39,695
Mentalix Criminal Live Scan Station	34,896
Crafco Super Shot 60 – Crack Sealer	30,547
2017 Ford Explorer	29,383
2017 Ford Explorer	27,838
2017 Ford Explorer	26,478
2017 Ford Explorer	26,478
Stryker Power Load System	24,826
Toro Groundsmaster	24,361
2017 Ford Explorer	23,968
Sandburg Place Creek Erosion	23,277

TABLE 3

CITY OF HIGHLAND VILLAGE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	$ 17,183,848	$ 17,183,848	$ 75,713	$ 75,713	$ 17,259,561	$ 17,259,561
Land improvements	16,433,024	15,354,680	-	-	16,433,024	15,354,680
Buildings and improvements	7,358,090	7,011,441	1,005,628	1,077,548	8,363,718	8,088,989
Distribution system	-	-	15,027,667	15,320,094	15,027,667	15,320,094
Equipment and machinery	2,727,350	2,002,480	448,726	249,813	3,176,076	2,252,293
Infrastructure	18,143,100	18,247,246	10,448	11,062	18,153,548	18,258,308
Intagibles	6,664	19,190	8,828	13,248	15,492	32,438
Construction in progress	378,562	4,003,876	89,343	934,957	467,905	4,938,833
Total capital assets	$ 62,230,638	$ 63,822,761	$ 16,666,353	$ 17,682,435	$ 78,896,991	$ 81,505,196

Additional information on the City's capital assets can be found in Note D on pages 44 - 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of $32,360,000. Of this amount, $21,520,000 is tax-supported debt. The remainder of the City of Highland Village's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

TABLE 4

CITY OF HIGHLAND VILLAGE'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligations	$ 10,700,000	$ 9,435,000	$ 6,300,000	$ 2,890,000	$ 17,000,000	$ 12,325,000
Combination tax and revenue certificates of obligation	9,400,000	12,535,000	4,540,000	8,800,000	13,940,000	21,335,000
Tax notes	1,420,000	1,535,000	-	-	1,420,000	1,535,000
	$ 21,520,000	$ 23,505,000	$ 10,840,000	$ 11,690,000	$ 32,360,000	$ 35,195,000

The City's total debt decreased by $2,835,000 during the current fiscal year. A key factor in this decrease was the scheduled debt payments of $2,920,000. The City also issued $6,485,000 in general obligation refunding bonds refunding $6,400,000 of debt.

The City's tax supported debt is rated "AA+" by Standards & Poor's and "AA" by Fitch Ratings. The City subsequently received an upgraded rating of "AAA" by Standards & Poor's. The current ratio of tax-supported debt to assessed value of all taxable property is 1.0 percent.

Additional information on the City's outstanding debt can be found in Note F on pages 46 – 50 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2017-2018 budget was adopted by ordinance on September 26, 2017. The following summarizes the significant factors that were considered in adopting the budget.

- General fund revenues are budgeted to increase by 5.7% over FY 2017 original budget with property taxes making up 64% of the general fund budgeted revenues. The property tax taxable values increased by 6.0%.The Council approved a $0.00161 per $100 valuation decrease in the property tax rate reducing the tax rate to $0.56802, with $0.49706 apportioned to maintenance and operation expenses and $0.07096 apportioned to pay interest and principle maturities on outstanding debt. The Council also approved an increase to the exemption for homeowners 65 years of age or over and disabled persons from $50,000 to $75,000. Sales tax represents 16% of the budget general fund revenues. Sales tax collections are expected to increase 7.6% over FY 2017 collections.

- General fund expenditures are budgeted to increase by 7.8% over FY 2017 original budget.

    - Personnel expenditures represent 68% of budgeted general fund expenditures. The proposed increase in personnel is $499,143 or 4.3% over FY 2017. This increase is related to proposed salary increases, partially offset by reduction in base salaries from expected retirement and turnover of tenured position. Health insurance is expected to increase $242,733 reflective of a 14% increase in premiums. Pension benefit contributions remained flat as a result of contribution rate decrease from 13.79% in FY 2017 to 13.71% in FY 2018.

    - Supplies and services expenditures represent 29% of the budgeted general fund expenditures. Expenditures are expected to increase by $668,357 or 15.3% from FY 2017. Major expected expenditures include $500,000 in potential economic development incentives, $50,000 increase in street overly projects, and a $57,000 invested in a phone system replacement.

    - Capital outlay expenditures represent 3% of the budgeted general fund expenditures. Capital expenditures are budgeted at $574,709, a $90,709 or 19% increase from FY 2017 original budget. This amount includes $217,000 of equipment replacement, with $357,709 in supplemental requests.

- The water and sewer rates structure and rates were updated in May 2017. The base level amounts were increased and a flat rate per gallon was implemented (changing from previous tiered rate structure) for usage up to 50,000 gallons of consumption. A more significant rate increase is charged for usage above 50,000 gallons. The overall increase in rates averages 18% - 20%.Additionally, the deposit was increased to $150 compared to the previous amount of $50 and a $5 per month discount is provided to residents of 65 years of age or older.

- The Council approved the issuance of general obligation bonds in the amount of $6,915,000 for the voter approved propositions for street improvement projects and parks and recreation projects. Additionally, Council approved the issuance of certificates of obligations in the amount of $2,715,000 for utility capital projects.

Information on subsequent events is detailed in Note K on page 58 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Highland Village, Finance Department, 1000 Highland Village Road, Highland Village, TX, 75077.

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BASIC
FINANCIAL STATEMENTS

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CITY OF HIGHLAND VILLAGE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 8,428,162	$ 220,327	$ 8,648,489
Receivables (net of allowances for uncollectibles)			
Taxes	1,218,267	-	1,218,267
Accounts	112,367	1,529,725	1,642,092
Intergovernmental	35,526	-	35,526
Other	25,453	37,409	62,862
Inventories and prepaid items	1,250	226,933	228,183
Internal balances	(63,549)	63,549	-
Restricted cash and investments:			
Reserved bond debt service	-	666,563	666,563
Capital improvements	-	838,629	838,629
Construction	-	851,976	851,976
Customer deposits	-	277,838	277,838
Capital assets:			
Nondepreciable	17,562,411	165,056	17,727,467
Depreciable, net	44,668,227	16,501,297	61,169,524
Total capital assets	62,230,638	16,666,353	78,896,991
Total assets	71,988,114	21,379,302	93,367,416
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	282,298	104,266	386,564
Deferred outflows related to pensions	2,078,425	265,047	2,343,472
Total deferred outflows of resources	2,360,723	369,313	2,730,036
LIABILITIES			
Accounts payable	460,644	671,662	1,132,306
Accrued liabilities	289,033	69,386	358,419
Unearned revenue	197,704	-	197,704
Accrued interest	75,159	37,080	112,239
Customer deposits	-	277,838	277,838
Current portion of long-term obligations	2,885,552	914,326	3,799,878
Noncurrent portion of long-term obligations	25,240,996	10,856,498	36,097,494
Total liabilities	29,149,088	12,826,790	41,975,878
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding	-	22,423	22,423
Deferred inflows related to pensions	180,799	23,056	203,855
Total deferred inflows of resources	180,799	45,479	226,278
NET POSITION			
Net investment in capital assets	40,453,356	6,603,211	47,056,567
Restricted for:			
Debt service	99,242	-	99,242
Community development	106,954	-	106,954
Public safety	87,901	-	87,901
Utility drainage	298,327	-	298,327
Public broadcasting	65,266	-	65,266
Capital projects	-	851,976	851,976
Unrestricted	3,907,904	1,421,159	5,329,063
Total net position	$ 45,018,950	$ 8,876,346	$ 53,895,296

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 4,654,057	$ 294,421	$ 2,250	$ -
Public safety	7,850,784	527,165	124,526	-
Community services	495,494	770,577	-	-
Streets and drainage	2,953,293	495,438	-	75,708
Parks and recreation	3,740,883	724,620	-	160,138
Interest on long-term debt	605,867	-	-	-
Total governmental activities	20,300,378	2,812,221	126,776	235,846
Business-type activities:				
Water and wastewater	8,698,522	8,224,755	-	141,554
Total business-type activities	8,698,522	8,224,755	-	141,554
Total primary government	$ 28,998,900	$ 11,036,976	$ 126,776	$ 377,400

General revenues:
- Taxes:
  - Property taxes, levied for general purposes
  - Property taxes, levied for debt service
  - Franchise
  - Sales
- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$(4,357,386)	$ -	$(4,357,386)
(7,199,093)	-	(7,199,093)
275,083	-	275,083
(2,382,147)	-	(2,382,147)
(2,856,125)	-	(2,856,125)
(605,867)	-	(605,867)
(17,125,535)	-	(17,125,535)
-	(332,213)	(332,213)
-	(332,213)	(332,213)
(17,125,535)	(332,213)	(17,457,748)
9,832,405	-	9,832,405
1,769,049	-	1,769,049
1,626,903	-	1,626,903
3,830,637	-	3,830,637
81,049	26,664	107,713
1,398,997	-	1,398,997
470,000	(470,000)	-
19,009,040	(443,336)	18,565,704
1,883,505	(775,549)	1,107,956
43,135,445	9,651,895	52,787,340
$ 45,018,950	$ 8,876,346	$ 53,895,296

CITY OF HIGHLAND VILLAGE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General	Debt Service	Community Development Corporation	Other Governmental	Total Governmental Funds
ASSETS					
Cash and investments	$ 7,191,030	$ 161,180	$ -	$ 1,075,952	$ 8,428,162
Receivables (net of allowances for uncollectibles):					
Taxes	990,167	13,221	214,879	-	1,218,267
Accounts	110,775	-	1,592	-	112,367
Intergovernmental	-	-	-	35,526	35,526
Other	-	-	-	25,453	25,453
Due from other funds	19,943			-	19,943
Prepaid items	1,250	-	-	-	1,250
Total assets	8,313,165	174,401	216,471	1,136,931	9,840,968
LIABILITIES					
Accounts payable	422,276	-	13,310	25,058	460,644
Accrued liabilities	274,078	-	6,059	8,896	289,033
Due to other funds	-	-	82,079	1,413	83,492
Unearned revenue	93,038	-	8,069	96,597	197,704
Total liabilities	789,392	-	109,517	131,964	1,030,873
DEFERRED INFLOWS OF RESOURCES					
Unavailable:					
Property taxes	62,434	13,221	-	-	75,655
Municipal court fines	44,257	-	-	-	44,257
Ambulance	25,122	-	-	-	25,122
Grants	-	-	-	6,718	6,718
Total deferred inflows of resources	131,813	13,221	-	6,718	151,752
FUND BALANCES					
Nonspendable - prepaid items	1,250	-	-	-	1,250
Restricted for:					
Debt service	-	161,180	-	-	161,180
Public parks, recreation, and related projects	-	-	106,954	-	106,954
Public safety - law enforcement operations	-	-	-	87,901	87,901
Utility drainage operations	-	-	-	298,327	298,327
Capital projects	-	-	-	45,662	45,662
Public broadcasting	-	-	-	65,266	65,266
Committed - park development and maintenance	-	-	-	501,093	501,093
Assigned for:					
Subsequent year's budget	425,921	-	-	-	425,921
Finance - professional services	44,000	-	-	-	44,000
Information services - professional services	8,980	-	-	-	8,980
Public safety - police - services and supplies	6,312	-	-	-	6,312
Public safety - fire - fire truck payment	266,393	-	-	-	266,393
Streets - maintenance and professional services	170,017	-	-	-	170,017
Maintenance - supplies and roof replacement	1,185,159	-	-	-	1,185,159
Parks - maintenance and supplies	17,847	-	-	-	17,847
Recreation - services	17,499	-	-	-	17,499
Unassigned	5,248,582	-	-	-	5,248,582
Total fund balances	7,391,960	161,180	106,954	998,249	8,658,343
Total liabilities, deferred inflows of resources, and fund balances	$ 8,313,165	$ 174,401	$ 216,471	$ 1,136,931	$ 9,840,968

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

Total fund balance, governmental funds		$ 8,658,343
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		62,230,638
Uncollected revenues are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.		
Property taxes	$ 75,655	
Ambulance fees	25,122	
Court fines	44,257	
Grant revenues	6,718	
		151,752
Long-term liabilities, including bonds and tax notes payable, are not due and payable in the current period and are therefore not reported in the funds. Also, the loss on refunding of bonds and premium on issuance of bonds are not included in the funds. The details of these differences are as follows:		
Bonds payable	(21,520,000)	
Deferred amount on refunding	282,298	
Issuance premium	(201,164)	
Accrued interest	(75,159)	
Capital lease obligation	(384,078)	
Compensated absences	(1,028,931)	
		(22,927,034)
Included in the items related to long-term liabilities is the recognition of the City's net pension liability and deferred outflow and inflow of resources related to pensions.		
Deferred outflow related to pensions	2,078,425	
Deferred inflow related to pensions	(180,799)	
Net pension liability	(4,992,375)	
		(3,094,749)
Net position of governmental activities in the statement of net position		$ 45,018,950

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Debt Service	Community Development Corporation	Other Governmental	Total Governmental Funds
REVENUES					
Taxes	$ 14,047,904	$ 1,769,663	$ 1,242,599	$ -	$ 17,060,166
Fines and forfeitures	98,699	-	-	-	98,699
Licenses, permits and fees	1,219,667	-	25,551	973,877	2,219,095
Intergovernmental	4,470	-	-	383,476	387,946
Charges for services	485,553	-	-	-	485,553
Investment earnings	74,414	2,359	508	3,768	81,049
Miscellaneous	1,398,997	-	-	-	1,398,997
Total revenues	17,329,704	1,772,022	1,268,658	1,361,121	21,731,505
EXPENDITURES					
Current:					
General government:					
City manager	544,528	-	-	-	544,528
Finance	1,428,436	-	-	16,654	1,445,090
Human resources	425,259	-	-	-	425,259
City secretary	302,567	-	-	-	302,567
Maintenance	781,732	-	-	-	781,732
Information technology	799,774	-	-	38,358	838,132
Public safety:					
Police	4,207,861	-	-	41,003	4,248,864
Fire	2,641,094	-	-	158	2,641,252
Community services	455,266	-	-	-	455,266
Streets and drainage	1,228,136	-	-	466,902	1,695,038
Parks and recreation	1,925,291	-	350,608	282,868	2,558,767
Debt service:					
Principal	248,592	2,015,000	-	-	2,263,592
Interest and other charges	13,674	637,024	-	-	650,698
Capital outlay	588,035	-	664,818	874,767	2,127,620
Total expenditures	15,590,245	2,652,024	1,015,426	1,720,710	20,978,405
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,739,459	(880,002)	253,232	(359,589)	753,100
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	2,435,000	-	-	2,435,000
Payment to escrow agent	-	(2,405,000)	-	-	(2,405,000)
Transfers in	569,393	870,124	-	565,812	2,005,329
Transfers out	(373,117)	-	(898,124)	(264,088)	(1,535,329)
Total other financing sources and uses	196,276	900,124	(898,124)	301,724	500,000
NET CHANGE IN FUND BALANCES	1,935,735	20,122	(644,892)	(57,865)	1,253,100
FUND BALANCES, BEGINNING	5,456,225	141,058	751,846	1,056,114	7,405,243
FUND BALANCES, ENDING	$ 7,391,960	$ 161,180	$ 106,954	$ 998,249	$ 8,658,343

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds:		$ 1,253,100
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	1,659,855	
Depreciation expense	(3,223,502)	
		(1,563,647)
In the statements of activities, only the loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets disposed.		(28,476)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The details of these differences are as follows:		
Property taxes	$(1,172)	
Ambulance fees	3,608	
Court fines	5,266	
Grants	(25,324)	
		(17,622)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while issuing debt increases long-term liabilities in the statement of net position. The repayment of the principal portion of bonds, capital leases and tax notes is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
Payments on bonds	1,900,000	
Payments on capital lease	248,592	
Payment on tax notes	115,000	
Issuance of refunding bonds and tax notes	(2,435,000)	
Payment to escrow agent	2,405,000	
		2,233,592
Certain pension expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource outflows and inflows related to the pension liability were amortized.		(476,523)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(50,111)	
Retainage payable	488,361	
Accrued interest	20,009	
Amortization of deferred loss of refunding bonds	(35,814)	
Amortization of premium on bond issuances	60,636	
		483,081
Change in net position of governmental activities		$ 1,883,505

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF NET POSITION

ENTERPRISE - WATER AND WASTEWATER FUND

SEPTEMBER 30, 2017

(With Comparative Totals as of September 30, 2016)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 220,327	$ 803,612
Accounts receivable, net	1,529,725	1,475,871
Other receivables	37,409	5,482
Inventories	222,368	217,356
Prepaid items	4,565	4,565
Due from other funds	63,549	-
Restricted cash and investments:		
Reserve bond debt service	666,563	559,848
Capital improvements	838,629	897,057
Construction	851,976	883,399
Customer deposits	277,838	261,818
Total current assets	4,712,949	5,109,008
Non-current assets:		
Capital assets:		
Nondepreciable capital assets	165,056	1,010,670
Depreciable capital assets, net of accumulated depreciation	16,501,297	16,671,765
Total capital assets	16,666,353	17,682,435
Total non-current assets	16,666,353	17,682,435
Total assets	21,379,302	22,791,443
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	104,266	131,831
Deferred outflows related to pensions	265,047	304,723
Total deferred outflows of resources	369,313	436,554
LIABILITIES		
Current liabilities:		
Accounts payable	671,662	479,991
Accrued expenses	69,386	69,482
Accrued interest	37,080	49,003
Retainage payable	-	63,288
Customer deposits	277,838	261,818
Current portion of long-term obligations	914,326	1,026,781
Total current liabilities	1,970,292	1,950,363
Non-current liabilities:		
Noncurrent portion of long-term obligations	10,856,498	11,605,742
Total non-current liabilities	10,856,498	11,605,742
Total liabilities	12,826,790	13,556,105
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	22,423	-
Deferred inflows related to pensions	23,056	19,997
Total deferred inflows of resources	45,479	19,997
NET POSITION		
Net investment in capital assets	6,603,211	6,738,242
Restricted for capital projects	851,976	883,399
Unrestricted	1,421,159	2,030,254
Total net position	$ 8,876,346	$ 9,651,895

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Comparative Totals For the Year Ended September 30, 2016)

	2017	2016
REVENUES		
Charges for services	$ 8,224,755	$ 8,011,036
Total operating revenues	8,224,755	8,011,036
OPERATING EXPENSES		
Administration	351,680	311,551
Maintenance and operations	6,681,735	6,489,572
Depreciation	1,285,092	1,170,236
Total operating expenses	8,318,507	7,971,359
OPERATING INCOME (LOSS)	(93,752)	39,677
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	26,664	19,201
Loss on disposal of capital assets	-	(128,296)
Interest expense	(380,015)	(401,170)
Total non-operating revenues (expenses)	(353,351)	(510,265)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(447,103)	(470,588)
CAPITAL CONTRIBUTIONS	141,554	1,383,317
TRANSFERS OUT	(470,000)	(470,000)
CHANGE IN NET POSITION	(775,549)	442,729
TOTAL NET POSITION, BEGINNING	9,651,895	9,209,166
TOTAL NET POSITION, ENDING	$ 8,876,346	$ 9,651,895

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

(With Comparative Totals For the Year Ended September 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 8,154,994	$ 8,289,908
Cash paid to suppliers for goods and services	(5,400,784)	(5,814,594)
Cash paid to employees for services	(1,361,275)	(1,451,652)
Net cash provided by operating activities	1,392,935	1,023,662
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash paid to other funds	(63,549)	-
Transfers to other funds	(470,000)	(470,000)
Net cash used for noncapital financing activities	(533,549)	(470,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	-	-
Acquisition of capital assets	(332,298)	(1,956,678)
Principal paid on bonds	(905,000)	(880,000)
Capital contributions	141,554	219,563
Interest and other charges paid on debt	(340,707)	(404,591)
Net cash used by capital and related financing activities	(1,436,451)	(3,021,706)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	26,664	19,201
Net cash provided by investing activities	26,664	19,201
NET DECREASE IN CASH AND CASH EQUIVALENTS	(550,401)	(2,448,843)
CASH AND CASH EQUIVALENTS, BEGINNING	3,405,734	5,854,577
CASH AND CASH EQUIVALENTS, ENDING (Including $2,635,006 and $2,602,122 reported as restricted cash and investments)	$ 2,855,333	$ 3,405,734

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

(With Comparative Totals For the Year Ended September 30, 2016)

	2017	2016
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$(93,752)	$ 39,677
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,285,092	1,170,236
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Decrease (increase) in assets and deferred outflows:		
Customer receivable	(53,854)	273,622
Other receivables	(31,927)	3,825
Inventories	(5,012)	(29,746)
Deferred outflow related to pensions	39,676	(169,514)
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	191,671	(429,697)
Accrued liabilities	(96)	(33,047)
Customer deposits	16,020	1,425
Compensated absences	13,413	(4,384)
Net pension liability	28,645	182,253
Deferred inflow related to pensions	3,059	19,012
Net cash provided by operating activities	$ 1,392,935	$ 1,023,662
Schedule of non-cash capital and related financing activities:		
Donation of capital assets	$ -	$ 692,045
Capital asset transfers from governmental funds	-	471,709
Payment to escrow agent for defeasance of bonds	3,995,000	-
Refunding bonds issued	4,050,000	-
Total	$ 8,045,000	$ 1,163,754

The accompanying notes are an integral part of these financial statements.

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1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Highland Village adopted a Home Rule Charter in April 1985, and operates under a Council-Manager form of government. All powers of the City are vested in an elected Council, which enacts local legislation, adopts budgets, determines policies and appoints the City Manager. The City Manager is responsible for executing the laws and administering the government of the City. The City Council consists of seven members, a mayor and six Councilpersons elected by the City's residents.

The City's Comprehensive Annual Financial Report presents the financial position, changes in financial position and cash flows where applicable of the City. The reporting entity is the primary government and those component units for which the primary government is financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

City of Highland Village voters, in November 2004, approved, in a special election, the creation of the Highland Village Community Development Corporation. The Corporation was formed for the purpose of funding public parks, recreation, and projects from revenues derived from a one-half cent sales tax within the City of Highland Village. The City Council appoints a board and board members are removable by the City Council, for cause or at will. Four out of seven board members are on City Council. In the event of dissolution title of all the assets transfer to the City. The operational responsibility of the Community Development Corporation is managed essentially the same manner as other City programs and activities. The Community Development Corporation is reported as a Special Revenue Fund. Financial statement information can be obtained by contacting the Highland Village Community Development Corporation, 1000 Highland Village Rd., Highland Village, Texas 75077.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

Debt Service Fund – is utilized to account for the accumulation of financial resources for, and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.

Community Development Corporation – is utilized to account for the use of 4B sales tax revenues that must be used in compliance with statutory restrictions set forth by the state legislature.

The City reports the following major proprietary fund:

Enterprise – Water and Wastewater Fund – is used to account for the water and wastewater operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Deferred Inflows/Outflows of Resources, Liabilities, and Net Position or Fund Balance

Cash and Investments

For the purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less.

Investments in government pools are recorded at amortized cost. All other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current traction between willing parties.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade receivables are shown net of allowance for uncollectible accounts based on an analysis of historical trends.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is 60 days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. Customers are billed for periods ending the 15th of each month on the last day of the month. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve bond debt service" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "construction funds" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.
Impact fees collected from developers to cover, in whole or in part, the anticipated costs of improvements that will be necessary as a result of the development are set aside in the "capital improvements" account.

Deposits collected from utility customers are set aside until repayment.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets within an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation expense is calculated principally on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives of major categories of property are as follows:

Assets	Years
Infrastructure	40
Buildings	30
Distribution system	20
Machinery and equipment	5 - 10

Accrued Vacation

It is the City's policy to grant employees vacation leave earned at the rate of 10 days a year for at least one but less than 5 years continuous service, 15 days for at least 5 but less than 10 years continuous service, and 20 days for at least 10 years continuous service. Upon termination, the employee shall be paid at the hourly rate of pay such employee was earning on the effective date of termination.

The City also grants employees sick leave earned at the rate of 12 days a year. Upon termination, employees are paid for one-half of the actual number of days earned up to a maximum of 45 days. Obligations under compensated absence arrangements are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City utilizes the last-in first-out method of recognizing the use of compensated absences. Thus, unless it is anticipated that compensated absences of governmental fund types will be used/paid in excess of a normal year's accumulation, no amount is classified as current.

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

- Changes in economic and demographic actuarial assumptions or of other inputs included in determining the pension liability – these effects on the total pension liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active or inactive employees).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, municipal court fines, ambulance, and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City also has two types of this item that is recorded under the full accrual basis of accounting. It is the difference in expected and actual pension experience and a deferred gain on bond refunding. The pension difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date and the deferred gain is amortized over the shorter of the life of the refunded or refunding debt.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by Ordinance of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council. The City does not have assigned fund balance at year-end.

- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of debt related to capital assets and accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data and Reclassifications

Comparative total data for the prior year is presented only for the Enterprise Fund in the fund financial statements in order to provide an understanding of changes in the financial position and operations of this fund. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Council has authorized under the City's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended.

Investments held at year-end are as follows:

	Carrying Value	Weighted Average Maturity (Days)
TexPool	$ 2,394,671	37
TexStar	1,447,370	27
Total investments	$ 3,842,041	

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), provide for the creation of public funds investment pools, such as Texas Short-term Reserve Fund ("TexStar"), and TexPool, through which political subdivisions and other entities may invest public funds.

J.P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

TexPool and TexStar have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Both TexPool and TexStar are rated AAAm by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool and TexStar with maturities of less than one year.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

Concentration of Credit Risk. The City's investments are issued or explicitly guaranteed by external investment pools, which are not considered to provide a concentration of credit risk.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times. The City's cash deposits in the bank on September 30, 2017, were covered by federal depository insurance or by collateral held by the City's agent in the City's name.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor governmental funds, including the applicable allowance for estimated uncollectible accounts, are as follows:

	General	Debt Service	Community Development Corporation	Nonmajor Governmental	Enterprise	Total
Receivables:						
Taxes	$ 990,167	$ 13,221	$ 214,879	$ -	$ -	$ 1,218,267
Accounts	611,683	-	1,592	-	1,349,445	1,962,720
Unbilled	-	-	-	-	523,738	523,738
Other	-	-	-	25,453	39,191	64,644
Intergovernmental	-	-	-	35,526	-	35,526
Gross receivables	1,601,850	13,221	216,471	60,979	1,912,374	3,804,895
Less: allowance for uncollectibles	500,908	-	-	-	345,240	846,148
Net total receivables	$ 1,100,942	$ 13,221	$ 216,471	$ 60,979	$ 1,567,134	$ 2,958,747

At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds were as follows:

General fund:	
Grants	$ 29,809
Park fees	14,368
Service	48,861
Total general fund	93,038
Community development corporation:	
Park fees	8,069
Total community development corporation	8,069
Nonmajor governmental fund:	
Grants	57,814
Parks fees	38,783
Total nonmajor governmental fund	96,597
Total governmental funds	$ 197,704

C. Interfund Transfers

The following is a summary of transfers:

	Transfers in			
Transfers out	General	Debt Service	Nonmajor Governmental	Total
General	$ -	$ -	$ 373,117	$ 373,117
Community Development Corporation	28,000	870,124	-	898,124
Nonmajor governmental	71,393	-	192,695	264,088
Water and wastewater	470,000	-	-	470,000
	$ 569,393	$ 870,124	$ 565,812	$ 2,005,329

The purpose of transfers is as follows:

- The transfers to non-major governmental funds was for a drainage fee associated with imperious square footage of public buildings, a supplement to fund the Sellmeyer capital project, and a supplement to fund the unity dog park capital project.

- The transfer from the Community Development Corporation Fund to the Debt Service Fund is a for debt service payments made on behalf of the HVCDC.

- The transfer from Community Development Corporation Fund to the General Fund is a payment in lieu of taxes.

- The transfer from the Water and Wastewater Fund to the General Fund represents an a payment in lieu of taxes.

- The transfer between non-major funds was to fund a portion of the Canyon Creek project.

D. Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 17,183,848	$ -	$ -	$ 17,183,848
Construction in progress	4,003,876	752,223	(4,377,536)	378,563
Total assets not being depreciated	21,187,724	752,223	(4,377,536)	17,562,411
Capital assets, being depreciated:				
Land improvements	21,835,389	-	2,058,794	23,894,183
Buildings and improvements	14,569,016	-	1,045,849	15,614,865
Equipment	7,700,373	907,632	137,136	8,745,141
Infrastructure	41,004,298	-	900,028	41,904,326
Intangibles	196,594	-	-	196,594
Total capital assets being depreciated	85,305,670	907,632	4,141,807	90,355,109
Less accumulated depreciation:				
Land improvements	6,480,709	980,451	-	7,461,160
Buildings and improvements	7,557,576	699,202	-	8,256,778
Equipment	5,697,892	527,153	(207,253)	6,017,792
Infrastructure	22,757,052	1,004,173	-	23,761,225
Intangibles	177,404	12,523	-	189,927
Total accumulated depreciation	42,670,633	3,223,502	(207,253)	45,686,882
Total capital assets being depreciated, net	42,635,037	(2,315,870)	4,349,060	44,668,227
Governmental activities capital assets, net	$ 63,822,761	$(1,563,647)	$(28,476)	$ 62,230,638

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 75,713	$ -	$ -	$ 75,713
Construction in progress	934,957	55,560	(901,174)	89,343
Total assets not being depreciated	1,010,670	55,560	(901,174)	165,056
Capital assets, being depreciated:				
Buildings	1,469,616	-	-	1,469,616
Improvements other than buildings	33,375,632	-	837,626	34,213,258
Equipment	1,654,283	276,998	(151,202)	1,780,079
Infrastructure	617,553	-	-	617,553
Intangibles	81,737	-	-	81,737
Total capital assets being depreciated	37,198,821	276,998	686,424	38,162,243
Less accumulated depreciation:				
Buildings	392,068	71,921	-	463,989
Improvements other than buildings	18,055,538	1,130,051	-	19,185,589
Equipment	1,404,470	78,085	(151,202)	1,331,353
Infrastructure	606,491	615	-	607,106
Intangibles	68,489	4,420	-	72,909
Total accumulated depreciation	20,527,056	1,285,092	(151,202)	21,660,946
Total capital assets being depreciated, net	16,671,765	(1,008,094)	837,626	16,501,297
Business-type activities capital assets, net	$ 17,682,435	$(952,534)	$(63,548)	$ 16,666,353

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
City manager	$ 18,650
Finance	51,471
Human resources	9,046
City secretary	30,003
Information Services	21,935
Maintenance	53,755
Community services	10,809
Police	272,457
Fire	378,306
Streets and drainage	1,225,991
Park and recreation	1,151,079
Total depreciation expense - governmental activities	$ 3,223,502
Business-type activities:	
Water and wastewater	$ 1,285,092
Total depreciation expense - business-type activities	$ 1,285,092

E. Construction Commitments

The City has active construction projects as of September 30, 2017. At year-end the City's commitments with contractors are as follows:

Projects	Spent to Date	Remaining Commitment
Governmental activities:		
Highland Village Rd. Phase II-A – Engineering only	$ 8,250	$ 16,750
ICS CAD/RMS Software	341,095	45,653
Pilot Knoll Restroom Renovation Project	12,175	184,800
Business activities:		
Spruce Drive Water Line Replacement – Engineering only	$ 4,135	$ 565
12" Water Line Northwest of City – Engineering only	20,461	103,339
KCS Railroad Sewer Line – Engineering only	22,501	2,399
Winding Creek Oak Forest Water Line – Engineering only	42,246	6,454

F. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
General obligation refunding and improvement bonds	3.50 - 4.00	2008	2028	5,000,000	$ 240,000
General obligation refunding and improvement bonds	2.00 - 4.00	2011	2022	4,070,000	1,040,000
General obligation refunding and improvement bonds	2.04	2015	2028	7,700,000	6,985,000
General obligation refunding bonds	2.28	2017	2029	2,435,000	2,435,000
					10,700,000
Business-type activities:					
General obligation refunding bonds	2.00 - 3.00	2012	2024	4,565,000	2,250,000
General obligation refunding bonds	2.28	2017	2029	4,050,000	4,050,000
					6,300,000
					$ 17,000,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	$ 1,445,000	$ 228,748	$ 575,000	$ 152,028
2019	1,115,000	195,938	595,000	136,544
2020	1,145,000	168,241	610,000	120,608
2021	1,170,000	139,825	620,000	104,333
2022	1,205,000	110,583	640,000	87,644
2023-2027	4,260,000	224,770	2,525,000	214,623
2028-2032	360,000	3,672	735,000	15,527
Total	$ 10,700,000	$ 1,071,777	$ 6,300,000	$ 831,307

Combination Tax and Revenue Certificates of Obligation

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Combination tax and revenue certificates of obligation have been issued for both governmental and business-type activities. Combination tax and revenue certificates of obligation outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Combination tax and revenue certificates of obligation	2.00 - 3.50	2012	2032	2,795,000	$ 2,410,000
Combination tax and revenue certificates of obligation	2.00 - 4.00	2014	2034	7,020,000	6,990,000
					9,400,000
Business-type activities:					
Combination tax and revenue certificates of obligation	2.00 - 4.00	2013	2034	4,540,000	4,540,000
					4,540,000
					$ 13,940,000

Combination tax and revenue certificates of obligation debt service requirements to maturity are as follows:

Year Ending	Governmental Activities		Business-type Activities	
September 30,	Principal	Interest	Principal	Interest
2018	$ 145,000	$ 272,428	$ 215,000	$ 134,850
2019	490,000	265,428	220,000	130,500
2020	505,000	254,153	225,000	126,050
2021	515,000	242,578	225,000	121,550
2022	530,000	230,703	230,000	116,713
2023-2027	2,850,000	943,630	1,265,000	483,088
2028-2032	3,295,000	485,498	1,490,000	254,320
2033-2037	1,070,000	41,756	670,000	26,010
Total	$ 9,400,000	$ 2,736,174	$ 4,540,000	$ 1,393,081

Tax Notes

The City also issues tax notes for the purpose of paying contractual obligations to be incurred for the acquisition of equipment and construction of certain land improvements. The tax notes are payable from proceeds of ad valorem tax levied upon all taxable property in the City. Tax notes currently outstanding at year-end are as follows:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
Tax Note	1.590 %	2015	2022	$ 1,535,000	$ 1,420,000
					$ 1,420,000

Tax Notes debt service requirements to maturity are as follows:

Year Ending	Governmental Activities	
September 30,	Principal	Interest
2018	$ 275,000	$ 20,392
2019	280,000	15,980
2020	285,000	11,488
2021	290,000	6,917
2022	290,000	2,306
Total	$ 1,420,000	$ 57,083

Capital Lease Obligation

The City has entered into lease agreements as a lessee for financing the acquisition of a fire truck and ambulance. The fire truck has a useful life of fifteen years and was purchased for a total cost of $896,886 and as of September 30, 2017, $125,441 of accumulated depreciation has been recorded for this fire truck. As of year-end, the ambulance had accumulated depreciation of $32,840, and was purchased for $250,780, with a useful life of seven years.

The future minimum lease obligations and the net present value of these lease payments as of September 30, 2017, were as follows:

Year Ending September 30,	Governmental Activities
2018	$ 262,266
2019	133,197
Total minimum lease payments	395,463
Less: amount representing interest	(11,385)
Present value of minimum lease payments	$ 384,078

Refunding Bonds

On February 23, 2017, the City issued $6,485,000 in general obligation refunding bonds with an interest rate of 2.275%. These bonds refunded the Combination Tax and Revenue Certificates of Obligation, Series 2008 and 2009, which had interest rates ranging from 3.5% to 4.5%. The net proceeds of $6,408,587 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the refunded obligations were considered defeased and the liability for those bonds has been removed from the statement of net position.

The City refunded the Combination Tax and Revenue Certificates of Obligation, Series 2006 and 2009, to reduce its total debt service payments over 12 years by $603,937 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $547,189.

G. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations	$ 9,435,000	$ 2,435,000	$ 1,170,000	$ 10,700,000	$ 1,445,000
Combination tax and revenue CO	12,535,000	-	3,135,000	9,400,000	145,000
Tax note	1,535,000	-	115,000	1,420,000	275,000
Issuance premium	261,800	-	60,636	201,164	32,444
Total bonds payable	23,766,800	2,435,000	4,480,636	21,721,164	1,897,444
Capital lease obligation	632,670	-	248,592	384,078	253,876
Net pension liability	4,924,274	1,158,459	1,090,358	4,992,375	-
Compensated absences	978,820	754,278	704,167	1,028,931	734,232
Governmental activities long-term liabilities	$ 30,302,564	$ 4,347,737	$ 6,523,753	$ 28,126,548	$ 2,885,552

The General Fund has typically been used to liquidate governmental activities compensated absences and net pension liability.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 2,890,000	$ 4,050,000	$ 640,000	$ 6,300,000	$ 575,000
Combination tax and revenue CO	8,800,000	-	4,260,000	4,540,000	215,000
Issuance premium	219,793	-	53,757	166,036	23,522
Total bonds payable	11,909,793	4,050,000	4,953,757	11,006,036	813,522
Net pension liability	607,996	167,691	139,046	636,641	-
Compensated absences	114,734	103,666	90,253	128,147	100,804
Business-type activities long-term liabilities	$ 12,632,523	$ 4,321,357	$ 5,183,056	$ 11,770,824	$ 914,326

H. Retirement Plan

Plan Descriptions. The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided. TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has approved an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5 years
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated Service Credit	100% repeating
Annuity increase to retirees	70% of CPI repeating

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	59
Inactive employees entitled to but not yet receiving benefits	110
Active employees	150
	319

Contributions. The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.20% and 13.64% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $1,303,201 and were equal to the required contributions.

Net Pension Liability. The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statue. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 33,690,662	$ 28,158,392	$ 5,532,270
Changes for the year:			
Service cost	1,646,661	-	1,646,661
Interest	2,307,773	-	2,307,773
Difference between expected and actual experience	(95,490)	-	(95,490)
Contributions - employer	-	1,229,404	(1,229,404)
Contributions - employee	-	651,959	(651,959)
Net investment income	-	1,903,485	(1,903,485)
Benefit payments, including refunds of employee contributions	(649,521)	(649,521)	-
Administrative expense	-	(21,492)	21,492
Other changes	-	(1,158)	1,158
Net changes	3,209,423	3,112,677	96,746
Balance at 12/31/2016	$ 36,900,085	$ 31,271,069	$ 5,629,016

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 11,597,344	$ 5,629,016	$ 799,925

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at *www.tmrs.com*.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions. For the year ended September 30, 2017, the City recognized pension expense of $1,826,907. At September 30, 2017, the City reported deferred outflows and inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 203,855
Changes in actuarial assumptions	109,026	-
Difference between projected and actual investment earnings	1,233,416	-
Contributions subsequent to the measurement date	1,001,032	-
Totals	$ 2,343,474	$ 203,855

$1,001,032 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2018	$ 402,473
2019	403,852
2020	345,456
2021	(13,194)
Total	$ 1,138,587

I. Other Post Employee Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal year ended 2017, 2016, and 2015 were $14,671, $15,478, and $14,339, respectively, which equaled the required contributions each year.

J. Commitments and Contingencies

Upper Trinity Regional Water District ("UTRWD")

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plant and to construct the regional sewer system with all of said bonds to be payable from and secured by annual payments made by participating members. In fiscal year 2017, the City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City paid fixed operations and maintenance cost of $392,200/MGD, $682,465/MGD for joint facilities, and $288,670 for facilities specific to Highland Village. The volume rate for treatment (including transportation charge) is $1.25/1,000 gallons.

In fiscal year 2017, the City has a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.11/1,000 gallons, with an annual demand charge of $411,500/MGD.

For fiscal year 2018, the City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City is committed to pay fixed operations and maintenance cost of $392,200/MGD, facility charges of $687,380 for joint facilities, and $225,235 annually for facilities specific to Highland Village. The volume rate for treatment (including transportation charge) is $1.25/1,000 gallons.

In fiscal year 2018, the City has a commitment with the UTRWD to take 3 million gallons per day (MGD) of treated water. The volume charge is $1.11/1,000 gallons, with an annual demand charge of $428,200/MGD.

Encumbrances

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget. At year end the amount of encumbrances expected to be honored in the next year were as follows:

Fund	Amount
General	$ 1,716,207
Other governmental	255,526
Total	$ 1,971,733

Lawsuits

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Risk Management

The City is exposed to various risks or loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's general liability and property coverage is insured by the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool. The City's only responsibility to the Fund is to pay premiums for insurance and related deductible amounts of these policies. Other risk of loss is covered by commercial insurance. Settlements of claims have not exceeded coverage in the past three years.

K. Subsequent Event

In February 2018, the City issued $6,905,000 of General Obligation Bonds, Series 2018 and $2,715,000 of Combination Tax and Revenue Certificates of Obligation, Series 2018. The bond proceeds will fund various construction projects within the City. Interest rates range from 1.6% to 4.0%, and mature February 5, 2038.

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REQUIRED
SUPPLEMENTARY INFORMATION

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CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	$ 14,178,374	$ 14,178,374	$ 14,047,904	$(130,470)
Fines and forfeitures	112,200	112,200	98,699	(13,501)
Licenses, permits and fees	837,304	1,037,304	1,219,667	182,363
Intergovernmental	-	-	4,470	4,470
Charges for services	466,921	466,921	485,553	18,632
Investment earnings	32,000	32,000	74,414	42,414
Miscellaneous	129,850	1,229,850	1,398,997	169,147
Total revenues	15,756,649	17,056,649	17,329,704	273,055
EXPENDITURES				
Current:				
General government:				
City manager:				
Personnel	382,974	421,614	406,878	14,736
Services and supplies	263,587	224,947	137,650	87,297
Total city manager	646,561	646,561	544,528	102,033
Finance:				
Personnel	928,120	928,120	921,127	6,993
Services and supplies	555,767	555,767	507,309	48,458
Total finance	1,483,887	1,483,887	1,428,436	55,451
Human resources:				
Personnel	450,958	370,958	349,673	21,285
Services and supplies	101,990	101,990	75,586	26,404
Total human resources	552,948	472,948	425,259	47,689
City secretary:				
Personnel	180,137	200,137	196,442	3,695
Services and supplies	124,265	124,265	106,125	18,140
Total city secretary	304,402	324,402	302,567	21,835
Information technology:				
Personnel	565,776	565,776	562,540	3,236
Services and supplies	319,187	544,187	237,234	306,953
Capital outlay	225,000	95,000	-	95,000
Total information technology	1,109,963	1,204,963	799,774	405,189
Maintenance:				
Personnel	305,833	305,833	269,131	36,702
Services and supplies	592,627	702,627	512,601	190,026
Capital outlay	-	1,037,723	-	1,037,723
Total maintenance	898,460	2,046,183	781,732	1,264,451

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public safety:				
Police:				
Personnel	$ 4,198,440	$ 4,128,440	$ 3,922,670	$ 205,770
Services and supplies	378,448	378,448	285,191	93,257
Capital outlay	100,000	240,000	177,914	62,086
Total police	4,676,888	4,746,888	4,385,775	361,113
Fire:				
Personnel	2,207,017	2,257,017	2,249,166	7,851
Services and supplies	317,888	317,888	391,928	(74,040)
Capital outlay	58,000	325,500	295,294	30,206
Total fire	2,582,905	2,900,405	2,936,388	(35,983)
Community services:				
Personnel	402,319	447,319	443,707	3,612
Services and supplies	23,193	23,193	11,559	11,634
Total building operations	425,512	470,512	455,266	15,246
Streets and drainage:				
Personnel	671,743	671,743	646,694	25,049
Services and supplies	672,926	872,926	581,442	291,484
Capital outlay	30,000	75,000	74,571	429
Total streets and drainage	1,374,669	1,619,669	1,302,707	316,962
Parks and recreation:				
Personnel	1,192,780	1,237,780	1,243,910	(6,130)
Services and supplies	755,878	765,878	681,381	84,497
Capital outlay	71,000	71,000	40,256	30,744
Total parks and recreation	2,019,658	2,074,658	1,965,547	109,111
Debt service:				
Principal	252,419	252,419	248,592	3,827
Interest and other charges	11,581	11,581	13,674	(2,093)
Total expenditures	16,339,853	18,255,076	15,590,245	2,664,831
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(583,204)	(1,198,427)	1,739,459	2,937,886
OTHER FINANCING SOURCES (USES)				
Transfers in	534,000	534,000	569,393	35,393
Transfers out	(266,000)	(312,000)	(373,117)	(61,117)
Total other financing sources and uses	268,000	222,000	196,276	(25,724)
NET CHANGE IN FUND BALANCE	(315,204)	(976,427)	1,935,735	2,912,162
FUND BALANCE, BEGINNING	5,456,225	5,456,225	5,456,225	-
FUND BALANCE, ENDING	$ 5,141,021	$ 4,479,798	$ 7,391,960	$ 2,912,162

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

COMMUNITY DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	$ 1,317,305	$ 1,317,305	$ 1,242,599	$(74,706)
Licenses, permits and fees	19,740	19,740	25,551	5,811
Investment earnings	2,000	2,000	508	(1,492)
Total revenues	1,339,045	1,339,045	1,268,658	(70,387)
EXPENDITURES				
Parks and recreation:				
Personnel	180,617	205,617	205,019	598
Services and supplies	153,690	188,690	145,589	43,101
Capital outlay	62,680	522,680	664,818	(142,138)
Total expenditures	396,987	916,987	1,015,426	(98,439)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	942,058	422,058	253,232	(168,826)
OTHER FINANCING SOURCES (USES)				
Transfer out	(918,071)	(918,071)	(898,124)	(19,947)
Total other financing sources (uses)	(918,071)	(918,071)	(898,124)	(19,947)
NET CHANGE IN FUND BALANCE	23,987	(496,013)	(644,892)	(148,879)
FUND BALANCE, BEGINNING	751,846	751,846	751,846	-
FUND BALANCE, ENDING	$ 775,833	$ 255,833	$ 106,954	$(148,879)

BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Special Revenue Funds, Debt Service Fund and the Park Development Fund. The Capital Projects Fund is appropriated on a project-length basis.

The appropriated budget is prepared by fund, department and three categories – personnel, services and supplies, and capital outlay. During the fiscal year, each department is responsible to not exceed the amounts budgeted in each of the three categories. Transfers of appropriations between categories or departments require the approval of council. Category subtotals of departmental expenditures thus provide the legal level of budgetary control.

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2017, expenditures exceed appropriation in the following fund, function, department and category.

Fund	Function/Department	Category	Amount
General	Public safety/Fire	Services and supplies	$ 74,040
General	Parks and recreation	Personnel	6,130
Community Development Corporation	Parks and recreation	Capital outlay	142,138
Debt Service	Debt service	Interest and other	7,224
Public Safety	Public safety/Police	Services and supplies	9,898
Public Safety	Public safety/Fire	Services and supplies	158
Municipal Court Building Security	General government/Finance	Personnel	1,016

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Plan Year	2014	2015	2016
A. Total pension liability			
Service Cost	$ 1,370,530	$ 1,535,928	$ 1,646,661
Interest (on the Total Pension Liability)	1,983,761	2,177,527	2,307,773
Difference between expected and actual experience	(10,973)	(226,332)	(95,490)
Changes of assumptions	-	196,596	-
Benefit payments, including refunds of employee contributions	(650,592)	(665,253)	(649,521)
Net change in total pension liability	2,692,726	3,018,466	3,209,423
Total pension liability - beginning	27,979,470	30,672,196	33,690,662
Total pension liability - ending (a)	$ 30,672,196	$ 33,690,662	$ 36,900,085
B. Plan fiduciary net position			
Contributions - employer	$ 1,070,712	$ 1,187,926	$ 1,229,404
Contributions - employee	588,766	625,694	651,959
Net investment income	1,407,343	39,833	1,903,485
Benefit payments, including refunds of employee contributions	(650,592)	(665,253)	(649,521)
Administrative expense	(14,690)	(24,263)	(21,492)
Other	(1,208)	(1,197)	(1,158)
Net change in plan fiduciary net position	2,400,331	1,162,740	3,112,677
Plan fiduciary net position - beginning	24,595,321	26,995,652	28,158,392
Plan fiduciary net position - ending (b)	$ 26,995,652	$ 28,158,392	$ 31,271,069
C. Net pension liability - ending (a) - (b)	$ 3,676,544	$ 5,532,270	$ 5,629,016
D. Plan fiduciary net position as a percentage of total pension liability	88.01%	83.58%	84.75%
E. Covered employee payroll	$ 8,410,947	$ 8,940,209	$ 9,313,695
F. Net position liability as a percentage of covered employee payroll	43.71%	61.88%	60.44%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of September 30, 2017, only 3 years are included and additional years will be added in the future as the information becomes available.

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Fiscal Year	2014	2015	2016	2017
Actuarial determined contribution	$ 1,049,673	$ 1,163,130	$ 1,258,570	$ 1,303,201
Contributions in relation to the actuarially determined contribution	1,049,673	1,163,130	1,258,570	1,303,201
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	8,329,839	8,859,846	9,517,623	9,628,107
Contributions as a percentage of covered employee payroll	12.60%	13.13%	13.22%	13.54%

Note: GASB Statement No. 68 requires 10 years of data to be provided in this schedule. As of September 30, 2017, only 4 years are included and additional years will be added in the future as the information becomes available.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date — Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information — The City removed the statutory maximum requirement.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Corps Leased Parks Fund – This fund is used to account for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons are committed to finance operations.

Public Safety Fund – This fund accounts for funds received from local, state and federal sources for the purpose of supporting the City's Police and Fire programs.

Municipal Court Building Security Fund – The security building fund provides for the collection of court fees with each fine that is to be utilized for the security of the court. Expenditures are restricted to security systems, bailiffs, metal detectors, locks, electronic identification systems, etc.

Municipal Court Technology Fund – The state legislature has allowed for the creation of a Municipal Court Technology Fund to defray the costs related to technology in the court system. This fund accounts for the collection of technology fees charged to defendants for misdemeanor offences as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

Utility Drainage Fund – This fund is used to account for fees collected for the purpose of improving, upgrading and maintaining the City's drainage system. The City is mandated by the Texas Commission on Environmental Quality (TCEQ) to develop and maintain a Storm Water Management Plan in order to address capacity and quality issues and protect its residents and their properties from possible flooding and pollution problems. Drainage fees are collected by residents to fund the activities required to comply TCEQ regulations.

PEG Fee Fund – This fund is used to account for public, educational, and governmental (PEG) fees charged to cable users, which are restricted for the City's PEG channel.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of capital improvements (other than those financed by proprietary funds). Such resources are derived from proceeds of general obligation debt, other sources designated for capital improvements and interest earned on such monies.

Park Development Fund – This fund accounts for development fees charged to property developers, which are committed for development and maintenance of City parks.

Capital Projects Fund – is used typically fund from serial bond proceeds, legally authorized debt instruments issued for specific projects, or funds from settlements or assessments that correspond to capital projects.

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue		
	Corps Leased Parks	Public Safety	Municipal Court Building Security
ASSETS			
Cash and investments	$ 596,281	$ -	$ 30,119
Receivables:			
Intergovernmental	-	35,526	-
Other	12,213	-	-
Total assets	608,494	35,526	30,119
LIABILITIES			
Accounts payable	9,039	3,113	-
Accrued liabilities	2,451	672	-
Due to other funds	-	1,413	-
Unearned revenue	96,597	-	-
Total liabilities	108,087	5,198	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable:			
Grants	-	6,718	-
Total deferred inflows of resources	-	6,718	-
FUND BALANCES			
Restricted for:			
Public safety - law enforcement operations	-	23,610	30,119
Utility drainage operations	-	-	-
Public broadcasting	-	-	-
Capital projects	-	-	-
Committed - park development and maintenance	500,407	-	-
Total fund balances	500,407	23,610	30,119
Total liabilities, deferred inflows of resources, and fund balances	$ 608,494	$ 35,526	$ 30,119

Special Revenue			Capital Projects		Total
Municipal Court Technology	Utility Drainage	PEG Fee	Park Development	Capital Projects	Nonmajor Governmental Funds
$ 34,183	$ 316,995	$ 52,026	$ 686	$ 45,662	$ 1,075,952
-	-	-	-	-	35,526
-	-	13,240	-	-	25,453
34,183	316,995	65,266	686	45,662	1,136,931
11	12,895	-	-	-	25,058
-	5,773	-	-	-	8,896
-	-	-	-	-	1,413
-	-	-	-	-	96,597
11	18,668	-	-	-	131,964
-	-	-	-	-	6,718
-	-	-	-	-	6,718
34,172	-	-	-	-	87,901
-	298,327	-	-	-	298,327
-	-	65,266	-	-	65,266
-	-	-	-	45,662	45,662
-	-	-	686	-	501,093
34,172	298,327	65,266	686	45,662	998,249
$ 34,183	$ 316,995	$ 65,266	$ 686	$ 45,662	$ 1,136,931

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue		
	Corps Leased Parks	Public Safety	Municipal Court Building Security
REVENUES			
Licenses, permits and fees	$ 416,736	$ -	$ 2,460
Intergovernmental	157,918	120,032	-
Investment earnings	784	-	-
Total revenues	575,438	120,032	2,460
EXPENDITURES			
Current:			
General government:			
Finance	-	-	1,016
Information Technology	-	-	-
Public safety:			
Police	-	19,498	-
Fire	-	158	-
Community services:			
Streets and drainage Maintenance	-	-	-
Parks and recreation	282,868	-	-
Capital outlay	44,361	34,896	-
Total expenditures	327,229	54,552	1,016
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	248,209	65,480	1,444
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(55,392)	-
Total other financing sources and uses	-	(55,392)	-
NET CHANGE IN FUND BALANCES	248,209	10,088	1,444
FUND BALANCES, BEGINNING	252,198	13,522	28,675
FUND BALANCES, ENDING	$ 500,407	$ 23,610	$ 30,119

Special Revenue			Capital Projects		Total
Municipal Court Technology	Utility Drainage	PEG Fee	Park Development	Capital Projects	Nonmajor Governmental Funds
$ 3,278	$ 495,438	$ 54,597	$ 1,368	$ -	$ 973,877
-	105,526	-	-	-	383,476
-	1,392	-	230	1,362	3,768
3,278	602,356	54,597	1,598	1,362	1,361,121
5,404	-	10,234	-	-	16,654
-	-	-	-	38,358	38,358
-	-	-	-	21,505	41,003
-	-	-	-	-	158
-	466,902	-	-	-	466,902
-	-	-	-	-	282,868
-	520,290	15,191	104,209	155,820	874,767
5,404	987,192	25,425	104,209	215,683	1,720,710
(2,126)	(384,836)	29,172	(102,611)	(214,321)	(359,589)
-	458,696	-	93,271	13,845	565,812
-	(16,000)	-	-	(192,696)	(264,088)
-	442,696	-	93,271	(178,851)	301,724
(2,126)	57,860	29,172	(9,340)	(393,172)	(57,865)
36,298	240,467	36,094	10,026	438,834	1,056,114
$ 34,172	$ 298,327	$ 65,266	$ 686	$ 45,662	$ 998,249

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	$ 1,761,728	$ 1,761,728	$ 1,769,663	$ 7,935
Investment earnings	1,400	1,400	2,359	959
Total revenues	1,763,128	1,763,128	1,772,022	8,894
EXPENDITURES				
Debt service:				
Principal	2,015,000	2,015,000	2,015,000	-
Interest and other charges	629,800	629,800	637,024	(7,224)
Total expenditures	2,644,800	2,644,800	2,652,024	(7,224)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(881,672)	(881,672)	(880,002)	1,670
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	2,435,000	2,435,000
Payment to escrow agent	-	-	(2,405,000)	(2,405,000)
Transfers in	890,071	890,071	870,124	(19,947)
Total other financing sources and uses	890,071	890,071	900,124	10,053
NET CHANGE IN FUND BALANCE	8,399	8,399	20,122	11,723
FUND BALANCE, BEGINNING	141,058	141,058	141,058	-
FUND BALANCE, ENDING	$ 149,457	$ 149,457	$ 161,180	$ 11,723

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

CORPS LEASED PARKS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 371,300	$ 371,300	$ 416,736	$ 45,436
Intergovernmental	50,000	50,000	157,918	107,918
Investment earnings	1,300	1,300	784	(516)
Total revenues	422,600	422,600	575,438	152,838
EXPENDITURES				
Parks and recreation:				
Personnel	199,565	199,565	174,900	24,665
Services and supplies	147,171	157,171	107,968	49,203
Capital outlay	71,500	111,500	44,361	67,139
Total expenditures	418,236	468,236	327,229	141,007
NET CHANGE IN FUND BALANCE	4,364	(45,636)	248,209	293,845
FUND BALANCE, BEGINNING	252,198	252,198	252,198	-
FUND BALANCE, ENDING	$ 256,562	$ 206,562	$ 500,407	$ 293,845

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC SAFETY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	$ 25,600	$ 80,600	$ 120,032	$ 39,432
Total revenues	25,600	80,600	120,032	39,432
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	3,600	9,600	19,498	(9,898)
Fire:				
Services and supplies	-	-	158	(158)
Capital outlay	-	35,000	34,896	104
Total expenditures	3,600	44,600	54,552	(9,952)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	22,000	36,000	65,480	29,480
OTHER FINANCING SOURCES (USES)				
Transfer out	(22,000)	(22,000)	(55,392)	(33,392)
Total other financing sources (uses)	(22,000)	(22,000)	(55,392)	(33,392)
NET CHANGE IN FUND BALANCE	-	14,000	10,088	(3,912)
FUND BALANCE, BEGINNING	13,522	13,522	13,522	-
FUND BALANCE, ENDING	$ 13,522	$ 27,522	$ 23,610	$(3,912)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT BUILDING SECURITY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 3,600	$ 3,600	$ 2,460	$(1,140)
Total revenues	3,600	3,600	2,460	(1,140)
EXPENDITURES				
General government:				
Finance:				
Personnel	-	-	1,016	(1,016)
Total expenditures	-	-	1,016	(1,016)
NET CHANGE IN FUND BALANCE	3,600	3,600	1,444	(2,156)
FUND BALANCE, BEGINNING	28,675	28,675	28,675	-
FUND BALANCE, ENDING	$ 32,275	$ 32,275	$ 30,119	$(2,156)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT TECHNOLOGY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 5,000	$ 5,000	$ 3,278	$(1,722)
Total revenues	5,000	5,000	3,278	(1,722)
EXPENDITURES				
General government:				
Finance:				
Services and supplies	5,500	5,500	5,404	96
Total expenditures	5,500	5,500	5,404	96
NET CHANGE IN FUND BALANCE	(500)	(500)	(2,126)	(1,626)
FUND BALANCE, BEGINNING	36,298	36,298	36,298	-
FUND BALANCE, ENDING	$ 35,798	$ 35,798	$ 34,172	$(1,626)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

UTILITY DRAINAGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses, permits and fees	$ 480,000	$ 480,000	$ 495,438	$ 15,438
Intergovernmental	-	-	105,526	105,526
Investment earnings	75	75	1,392	1,317
Total revenues	480,075	480,075	602,356	122,281
EXPENDITURES				
Street and drainage:				
Personnel	331,943	356,943	352,886	4,057
Services and supplies	166,355	166,355	114,016	52,339
Capital outlay	250,000	525,000	520,290	4,710
Total expenditures	748,298	1,048,298	987,192	61,106
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(268,223)	(568,223)	(384,836)	183,387
OTHER FINANCING SOURCES (USES)				
Transfers in	266,000	461,000	458,696	(2,304)
Transfers out	(16,000)	(16,000)	(16,000)	-
Total other financing sources (uses)	250,000	445,000	442,696	(2,304)
NET CHANGE IN FUND BALANCE	(18,223)	(123,223)	57,860	181,083
FUND BALANCE, BEGINNING	240,467	240,467	240,467	-
FUND BALANCE, ENDING	$ 222,244	$ 117,244	$ 298,327	$ 181,083

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PEG FEE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
PEG fees	$ 65,000	$ 65,000	$ 54,597	$(10,403)
Total revenues	65,000	65,000	54,597	(10,403)
EXPENDITURES				
General government:				
Services and supplies	21,700	17,700	10,234	7,466
Capital outlay	12,000	15,500	15,191	309
Total expenditures	33,700	33,200	25,425	7,775
NET CHANGE IN FUND BALANCE	31,300	31,800	29,172	(2,628)
FUND BALANCE, BEGINNING	36,094	36,094	36,094	-
FUND BALANCE, ENDING	$ 67,394	$ 67,894	$ 65,266	$(2,628)

CITY OF HIGHLAND VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PARK DEVELOPMENT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget			Variance With Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES				
Park development fees	$ 684	$ 60,684	$ 1,368	$(59,316)
Investment earnings	-	-	230	230
Total revenues	684	60,684	1,598	(59,086)
EXPENDITURES				
Capital outlay	-	115,000	104,209	10,791
Total expenditures	-	115,000	104,209	10,791
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	684	(54,316)	(102,611)	(48,295)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	31,334	93,271	61,937
Total other financing sources (uses)	-	31,334	93,271	61,937
NET CHANGE IN FUND BALANCE	684	(22,982)	(9,340)	13,642
FUND BALANCE, BEGINNING	10,026	10,026	10,026	-
FUND BALANCE, ENDING	$ 10,710	$(12,956)	$ 686	$ 13,642

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CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

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CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS BY SOURCE

SEPTEMBER 30, 2017

GENERAL CAPITAL ASSETS		
Land	$	17,183,848
Land improvements		23,894,183
Building and improvements		15,614,865
Equipment		8,745,141
Other capital assets		196,594
Infrastructure		41,904,326
Construction in progress		378,563
Total general capital assets	$	107,917,520
INVESTMENT IN GENERAL CAPITAL ASSETS		
Investment in general capital assets acquired prior to October 1, 1990	$	655,037
General fund		9,823,282
Vehicle replacement fund		670,674
Special revenue funds		23,099,413
Capital project funds		26,491,407
Donations		47,177,707
Total investment in general capital assets	$	107,917,520

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY FUNCTION AND ACTIVITY

SEPTEMBER 30, 2017

Department	Land	Land Improvements	Building Improvements	Equipment	Other Assets	Infrastructure	Construction in Progress	Total
City Manager	$ 430,748	$ -	$ 265,915	$ 54,275	$ -	$ -	$ -	$ 750,938
Finance	26,652	-	412,718	414,433	141,029	-	-	994,832
Human Resources	8,812	-	113,185	-	13,388	-	-	135,385
City Secretary	41,479	-	511,673	-	18,447	-	-	571,599
Information services	-	-	-	109,674	-		-	109,674
Police	214,495	-	2,765,228	2,024,006	6,273	-	341,096	5,351,098
Fire	41,800	-	4,438,500	2,788,279	-	-	-	7,268,579
Building Operations	8,928	-	142,993	53,339	-	-	-	205,260
Streets and Drainage	11,571,914	1,007,402	885,794	1,022,797	-	41,468,681	-	55,956,588
Maintenance	65,609	-	775,361	382,793	-	-	-	1,223,763
Drainage Operations	-	29,200	451,842	743,678	-	435,645	-	1,660,365
Parks and Recreation	4,773,411	22,857,581	4,851,656	1,151,867	17,457	-	37,467	33,689,439
Total general capital assets	$ 17,183,848	$ 23,894,183	$ 15,614,865	$ 8,745,141	$ 196,594	$ 41,904,326	$ 378,563	$ 107,917,520

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS - CHANGES BY FUNCTION AND ACTIVITY

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Department	Balance September 30, 2016	Additions	Retirements / Transfers	Balance September 30, 2017
City manager	$ 750,938	$ -	$ -	$ 750,938
Finance	979,641	15,191	-	994,832
Human resources	135,385	-	-	135,385
City secretary	571,599	-	-	571,599
Information services	109,674	-	-	109,674
Police	5,029,901	321,197	-	5,351,098
Fire	7,131,386	295,294	158,101	7,268,579
Building operations	205,260	-	-	205,260
Streets and drainage	55,895,557	111,491	50,460	55,956,588
Maintenance	1,223,763	-	-	1,223,763
Drainage operations	1,140,075	520,290	-	1,660,365
Parks and recreation	33,320,215	396,392	27,168	33,689,439
Total capital assets	$ 106,493,394	$ 1,659,855	$ 235,729	$ 107,917,520

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STATISTICAL SECTION

This part of the City of Highland Village, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

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Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	80
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	88
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	92
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	97
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	100

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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TABLE 1

CITY OF HIGHLAND VILLAGE, TEXAS

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities:										
Net investment in capital assets	$ 34,619,733	$ 36,047,885	$ 37,529,766	$ 36,432,805	$ 36,579,491	$ 38,572,424	$ 39,860,121	$ 40,160,271	$ 40,067,568	$ 40,453,356
Restricted:										
Debt service	237,114	268,467	236,654	262,165	259,678	77,964	100,918	62,822	59,725	99,242
Community development	-	-	1,114,888	1,156,675	1,073,212	592,076	533,841	968,043	647,532	106,954
Public safety	-	-	-	76,953	86,057	92,018	94,120	84,158	78,495	87,901
Utility drainage	-	-	-	433,566	283,352	171,166	161,368	165,456	240,467	298,327
Public broadcasting	-	-	-	-	10,738	6,291	17,420	30,276	36,094	65,266
Capital projects	355,191	345,422	386,322	-	-	-	-	-	-	-
Unrestricted	3,850,047	4,824,756	4,840,585	4,208,202	4,454,302	3,906,066	3,931,056	2,210,827	2,005,564	3,907,904
Total governmental activities net position	$ 39,062,085	$ 41,486,530	$ 44,108,215	$ 42,570,366	$ 42,746,830	$ 43,418,005	$ 44,698,844	$ 43,681,853	$ 43,135,445	$ 45,018,950
Business-type activities:										
Net investment in capital assets	$ 6,111,699	$ 5,465,933	$ 5,664,677	$ 7,149,038	$ 6,393,534	$ 6,442,425	$ 6,325,308	$ 5,519,051	$ 6,738,242	$ 6,603,211
Restricted:										
Capital projects	1,800,047	1,678,094	1,457,105	1,657,116	1,110,634	850,597	854,369	859,804	883,399	851,976
Unrestricted	1,780,651	2,951,956	2,130,193	2,830,923	3,079,711	3,594,106	3,142,581	2,830,311	2,030,254	1,421,159
Total business-type activities net position	$ 9,692,397	$ 10,095,983	$ 9,251,975	$ 11,637,077	$ 10,583,879	$ 10,887,128	$ 10,322,258	$ 9,209,166	$ 9,651,895	$ 8,876,346
Primary government:										
Net investment in capital assets	$ 40,731,432	$ 41,513,818	$ 43,194,443	$ 43,581,843	$ 42,973,025	$ 45,014,849	$ 46,185,429	$ 45,679,332	$ 46,805,810	$ 47,056,567
Restricted:										
Debt service	237,114	268,467	236,654	262,165	259,678	77,964	100,918	62,822	59,725	99,242
Community Development	-	-	1,114,888	1,156,675	1,073,212	592,076	533,841	968,043	647,532	106,954
Public safety	-	-	-	76,953	86,057	92,018	94,120	84,158	78,495	87,901
Utility drainage	-	-	-	433,566	283,352	171,166	161,368	165,456	240,467	298,327
Public broadcasting	-	-	-	-	10,738	6,291	17,420	30,276	36,094	65,266
Capital projects	2,155,238	2,023,516	1,843,427	1,657,116	1,110,634	850,597	854,369	859,804	883,399	851,976
Unrestricted	5,630,698	7,776,712	6,970,778	7,039,125	7,534,013	7,500,172	7,073,637	5,041,138	4,035,818	5,329,063
Total primary government net position	$ 48,754,482	$ 51,582,513	$ 53,360,190	$ 54,207,443	$ 53,330,709	$ 54,305,133	$ 55,021,102	$ 52,891,029	$ 52,787,340	$ 53,895,296

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

	Fiscal Year		
	2008	2009	2010
EXPENSES			
Governmental activities:			
General government	$ 2,920,042	$ 3,087,596	$ 3,309,453
Public safety	4,817,750	5,454,270	5,716,458
Building operations	326,715	342,084	347,208
Community development	503,579	506,031	510,371
Community services	-	-	-
Streets and drainage	1,998,304	2,395,655	2,252,522
Parks and recreation	2,061,027	2,355,359	2,548,972
Interest on long-term debt	681,888	932,556	974,478
Total governmental activities expenses	13,309,305	15,073,551	15,659,462
Business-type activities:			
Water and wastewater	6,823,202	7,256,548	8,086,711
Total business-type activities expenses	6,823,202	7,256,548	8,086,711
Total primary government program expenses	$ 20,132,507	$ 22,330,099	$ 23,746,173
PROGRAM REVENUES			
Governmental activities:			
Charges for services:			
General government	$ 135,323	$ 160,388	$ 243,938
Public safety	273,295	288,262	200,990
Building operations	-	-	-
Community services	-	-	-
Community development	451,730	326,529	293,338
Streets and drainage	393,491	396,519	397,886
Parks and recreation	418,924	365,163	393,737
Operating grants and contributions	190,771	383,646	227,209
Capital grants and contributions	-	2,078,055	-
Total governmental activities program revenues	1,863,534	3,998,562	1,757,098
Business-type activities:			
Charges for services:			
Water and wastewater	7,551,247	7,643,327	7,348,133
Capital grants and contributions	200,628	196,340	106,473
Total business-type activities program revenues	7,751,875	7,839,667	7,454,606
Total primary government program revenues	$ 9,615,409	$ 11,838,229	$ 9,211,704

TABLE 2

Fiscal Year						
2011	2012	2013	2014	2015	2016	2017
$ 4,061,944	$ 3,866,847	$ 4,012,367	$ 4,089,989	$ 4,330,662	$ 4,392,360	$ 4,654,057
6,057,589	6,172,127	6,220,099	6,361,961	6,848,781	7,782,368	7,850,784
311,579	366,097	-	-	-	-	-
-	-	-	-	-	-	-
-	-	386,807	389,300	415,562	446,470	495,494
2,323,968	2,436,763	2,554,759	3,157,921	2,546,268	2,826,584	2,953,293
2,869,595	3,012,260	3,059,741	3,199,066	3,199,678	3,534,661	3,740,883
844,711	786,492	766,603	887,123	836,051	699,315	605,867
16,469,386	16,640,586	17,000,376	18,085,360	18,177,002	19,681,758	20,300,378
7,956,791	9,674,321	7,782,455	8,530,306	8,525,158	8,500,825	8,698,522
7,956,791	9,674,321	7,782,455	8,530,306	8,525,158	8,500,825	8,698,522
$ 24,426,177	$ 26,314,907	$ 24,782,831	$ 26,615,666	$ 26,702,160	$ 28,182,583	$ 28,998,900
$ 247,160	$ 270,446	$ 346,896	$ 349,821	$ 331,895	$ 283,062	$ 294,421
228,724	244,070	234,931	291,234	285,879	429,534	527,165
328,780	287,245	-	-	-	-	-
-	-	326,450	424,368	388,580	524,273	770,577
-	-	-	-	-	-	-
401,583	404,726	399,727	469,914	474,492	517,450	495,438
452,633	502,356	408,598	474,319	474,514	654,906	724,620
148,982	223,526	79,277	44,048	32,377	44,839	126,776
72,385	202,669	1,541,554	1,731,955	1,353,726	221,974	235,846
1,880,247	2,135,038	3,337,433	3,785,659	3,341,463	2,676,038	3,174,843
9,062,987	8,751,077	8,486,005	8,101,643	7,888,614	8,011,036	8,224,755
193,982	145,701	79,560	148,467	104,191	911,608	141,554
9,256,969	8,896,778	8,565,565	8,250,110	7,992,805	8,922,644	8,366,309
$ 11,137,216	$ 11,031,816	$ 11,902,998	$ 12,035,769	$ 11,334,268	$ 11,598,682	$ 11,541,152

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET POSITION
(Continued)
LAST TEN FISCAL YEARS

	Fiscal Year		
	2008	2009	2010
NET (EXPENSE) REVENUES			
Governmental activities	$(11,445,771)	$(11,074,989)	$(13,902,364)
Business-type activities	928,673	583,119	(632,105)
Total primary government net expense	(10,517,098)	(10,491,870)	(14,534,469)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental activities:			
Taxes			
Property	8,454,932	9,410,561	9,487,593
Franchise	1,418,826	1,384,660	1,417,221
Sales	1,859,946	1,885,786	2,781,423
Unrestricted investment earnings	345,422	340,518	74,569
Gain on sale of assets	-	39,610	-
Miscellaneous	253,515	198,299	210,188
Transfers	240,000	240,000	276,500
Total governmental activities	12,572,641	13,499,434	14,247,494
Business-type activities:			
Unrestricted investment earnings	144,707	60,467	64,597
Transfers	(240,000)	(240,000)	(276,500)
Total business-type activities	(95,293)	(179,533)	(211,903)
Total primary government	12,477,348	13,319,901	14,035,591
CHANGE IN NET POSITION			
Governmental activities	1,126,870	2,424,445	345,130
Business-type activities	833,380	403,586	(844,008)
Total primary government	$ 1,960,250	$ 2,828,031	$(498,878)

TABLE 2

Fiscal Year						
2011	2012	2013	2014	2015	2016	2017
$(14,589,139)	$(14,505,548)	$(13,700,224)	$(14,299,701)	$(14,835,539)	$(17,005,720)	$(17,125,535)
1,300,178	(777,543)	766,821	(280,196)	(532,353)	421,819	(332,213)
(13,288,961)	(15,283,091)	(12,933,403)	(14,579,897)	(15,367,892)	(16,583,901)	(17,457,748)
9,323,925	9,397,945	9,336,875	9,726,985	10,220,940	10,876,727	11,601,454
1,412,034	1,582,402	1,640,398	1,720,762	1,722,995	1,658,700	1,626,903
3,004,273	3,252,413	3,304,660	3,613,216	3,690,787	3,786,900	3,830,637
45,144	32,737	38,059	33,308	36,026	54,786	81,049
33,260	27,485	-	-	-	-	-
281,566	89,030	199,282	186,269	122,009	83,908	1,398,997
(1,048,912)	300,000	300,000	300,000	300,000	(1,709)	470,000
13,051,290	14,682,012	14,819,274	15,580,540	16,092,757	16,459,312	19,009,040
36,012	24,345	12,142	15,326	17,104	19,201	26,664
1,048,912	(300,000)	(300,000)	(300,000)	(300,000)	1,709	(470,000)
1,084,924	(275,655)	(287,858)	(284,674)	(282,896)	20,910	(443,336)
14,136,214	14,406,357	14,531,416	15,295,866	15,809,861	16,480,222	18,565,704
(1,537,849)	176,464	1,119,050	1,280,839	1,257,218	(546,408)	1,883,505
2,385,102	(1,053,198)	478,963	(564,870)	(815,249)	442,729	(775,549)
$ 847,253	$(876,734)	$ 1,598,013	$ 715,969	$ 441,969	$(103,679)	$ 1,107,956

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CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Nonspendable - prepaid items	$ -	$ -	$ -	$ 1,073	$ 772	$ 7,319	$ 1,176	$ 449	$ 251,748	$ 1,250
Assigned	-	-	-	-	-	151,582	185,104	865,468	1,270,558	2,142,128
Unassigned	-	-	-	4,295,895	4,539,271	4,442,650	4,357,319	4,207,414	3,933,919	5,248,582
Reserved	97,928	283,297	188,860	-	-	-	-	-	-	-
Unreserved	3,693,582	3,633,978	4,001,874	-	-	-	-	-	-	-
Total general fund	$ 3,791,510	$ 3,917,275	$ 4,190,734	$ 4,296,968	$ 4,540,043	$ 4,601,551	$ 4,543,599	$ 5,073,331	$ 5,456,225	$ 7,391,960
All other governmental funds										
Restricted, for the purpose of:										
Debt service	$ -	$ -	$ -	$ 349,270	$ 354,029	$ 160,157	$ 168,040	$ 154,343	$ 141,058	$ 161,180
Community development	-	-	-	2,539,696	2,350,393	1,820,252	8,056,884	2,349,085	751,846	106,954
Public safety	-	-	-	76,953	86,057	92,018	94,120	84,158	78,495	87,901
Utility drainage	-	-	-	433,566	283,352	171,166	161,368	165,456	240,467	298,327
Capital projects	-	-	-	371,455	3,104,486	785,227	641,828	392,061	438,834	45,662
Public Broadcasting	-	-	-	-	10,738	6,291	17,420	30,276	36,094	65,266
Committed - parks	-	-	-	236,402	167,766	86,178	106,705	120,422	262,224	501,093
Reserved	9,679,618	12,534,051	1,865,015	-						
Unreserved, reported in:										
Special revenue funds	474,263	517,724	3,180,113	-	-	-	-	-	-	-
Capital projects funds	171,976	173,291	-	-	-	-	-	-	-	-
Total all other governmental funds	$ 10,325,857	$ 13,225,066	$ 5,045,128	$ 4,007,342	$ 6,356,821	$ 3,121,289	$ 9,246,365	$ 3,295,801	$ 1,949,018	$ 1,266,383

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

TABLE 4

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
REVENUES										
Taxes	$ 11,759,504	$ 12,665,467	$ 13,698,528	$ 13,747,894	$ 14,234,807	$ 14,271,269	$ 15,066,221	$ 15,625,989	$ 16,308,934	$ 17,060,166
Fines and forfeitures	128,235	148,806	243,880	216,558	123,635	170,442	158,183	124,932	99,082	98,699
Licenses, permits, fees	1,303,368	1,127,547	1,132,330	1,256,464	1,372,677	1,414,988	1,600,992	1,565,929	1,916,752	2,219,095
Intergovernmental	183,398	358,837	224,909	147,182	353,433	1,620,831	1,651,123	1,435,235	310,519	387,946
Charges for services	204,536	260,508	152,512	220,595	201,896	206,460	252,168	253,851	391,627	485,553
Investment earnings	345,422	317,234	97,853	45,144	16,795	54,003	33,308	36,026	54,786	81,049
Miscellaneous	259,515	223,108	212,488	318,178	117,514	199,282	186,269	122,009	114,448	1,398,997
Total revenues	14,183,978	15,101,507	15,762,500	15,952,015	16,420,757	17,937,275	18,948,264	19,163,971	19,196,148	21,731,505
EXPENDITURES										
General government	2,795,110	2,951,409	3,184,450	3,877,964	3,676,079	3,821,447	3,862,314	4,137,117	4,135,129	4,337,308
Public safety	4,361,246	4,789,474	5,049,759	5,368,601	5,570,980	5,563,505	5,726,860	6,212,042	6,952,405	6,890,116
Building operations	320,616	336,072	341,466	306,349	352,156	-	-	-	-	-
Community development	494,528	492,933	517,773	-	-	-	-	-	-	-
Community service	-	-	-	-	-	373,690	378,626	401,541	430,163	455,266
Streets and drainage	952,526	1,290,052	1,081,337	1,185,257	1,208,138	1,359,195	1,936,985	1,352,770	1,589,676	1,695,038
Parks and recreation	1,695,348	1,962,700	2,039,292	2,283,597	2,313,973	2,354,526	2,415,834	2,378,196	2,626,904	2,558,767
Debt service:										
Principal	1,419,371	1,401,407	1,781,323	1,696,671	1,765,000	1,735,000	1,815,000	1,955,000	2,176,616	2,263,592
Interest and other	793,504	1,049,888	980,673	901,321	824,359	794,461	888,597	863,286	716,472	650,698
Capital outlay	2,153,389	1,946,051	5,345,918	1,594,158	1,336,567	5,409,475	3,223,116	8,218,357	3,868,574	2,127,620
Total expenditures	14,985,638	16,219,986	20,321,991	17,213,918	17,047,252	21,411,299	20,247,332	25,518,309	22,495,939	20,978,405

TABLE 4

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$(801,660)	$(1,118,479)	$(4,559,491)	$(1,261,903)	$(626,495)	$(3,474,024)	$(1,299,068)	$(6,354,338)	$(3,299,791)	$ 753,100
OTHER FINANCING SOURCES (USES)										
Issuance of long-term debt	8,000,000	3,830,000	-	4,070,000	2,795,000	-	7,020,000	-	9,235,000	2,435,000
Proceeds from capital leases	-	-	-	-	-	-	-	633,506	250,780	-
Premium on debt issuance	158,766	33,843	-	200,910	124,049	-	46,192	-	-	-
Proceeds from sale capital assets	-	39,610	-	-	-	-	-	-	-	-
Payments to escrow account	-	-	-	(4,240,559)	-	-	-	-	(7,619,878)	(2,405,000)
Transfers in	409,676	730,493	1,612,313	1,314,389	1,198,962	1,268,715	1,235,142	1,283,905	2,290,168	2,005,329
Transfers out	(169,676)	(490,493)	(1,335,813)	(1,014,389)	(898,962)	(968,715)	(935,142)	(983,905)	(1,820,168)	(1,535,329)
Total other financing sources (uses)	8,398,766	4,143,453	276,500	330,351	3,219,049	300,000	7,366,192	933,506	2,335,902	500,000
NET CHANGE IN FUND BALANCES	$ 7,597,106	$ 3,024,974	$(4,282,991)	$(931,552)	$ 2,592,554	$(3,174,024)	$ 6,067,124	$(5,420,832)	$(963,889)	$ 1,253,100
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	17.2%	17.2%	18.4%	16.6%	16.5%	15.8%	15.9%	16.6%	15.6%	15.1%

CITY OF HIGHLAND VILLAGE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Real Property: Residential Property	Real Property: Commercial Property	Personal Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2008	$ 1,307,427,681	$ 195,882,733	$ 31,996,149	$ 56,731,754	$ 1,478,574,809	0.56963	$ 8,422,406
2009	1,367,695,704	254,564,950	63,406,709	68,338,327	1,617,329,036	0.56963	9,212,791
2010	1,392,011,109	272,382,720	63,385,404	69,657,350	1,658,121,883	0.56963	9,445,160
2011	1,401,737,552	225,092,872	53,733,486	75,046,468	1,605,517,442	0.56963	9,145,509
2012	1,416,483,461	252,976,165	59,119,095	80,495,062	1,648,083,659	0.56963	9,387,979
2013	1,411,883,987	254,483,493	58,492,381	89,119,649	1,635,740,212	0.56963	9,317,667
2014	1,461,181,835	263,597,977	60,771,959	90,906,933	1,694,644,838	0.56963	9,653,205
2015	1,564,231,925	278,425,113	60,243,887	105,428,441	1,797,472,484	0.56963	10,238,943
2016	1,649,565,971	313,545,655	64,490,237	106,266,234	1,921,335,629	0.56963	10,944,504
2017	1,760,795,273	312,423,960	63,604,815	120,818,328	2,016,005,720	0.56963	11,483,773

Source: Denton County Appraisal District

Note: Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per $100 of assessed value.

Residential: single family, vacant lots, acreage, and farm/ranch and personal.

Commercial: real commercial, personal industrial and utilities.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates	
	Operating/ General Rate	Debt Service Rate	Total Direct Rate	Lewisville Independent School District	Denton County
2008	0.44097	0.12866	0.56963	1.37000	0.23577
2009	0.45433	0.11530	0.56963	1.38000	0.23577
2010	0.45413	0.11550	0.56963	1.40870	0.24980
2011	0.45504	0.11459	0.56963	1.42670	0.27390
2012	0.45855	0.11108	0.56963	1.42600	0.27736
2013	0.46983	0.09980	0.56963	1.45300	0.28287
2014	0.46129	0.10834	0.56963	1.47700	0.28491
2015	0.46999	0.09964	0.56963	1.47700	0.27220
2016	0.47817	0.09146	0.56963	1.47673	0.26220
2017	0.48279	0.08684	0.56963	1.42000	0.24840

Source: Denton County Tax Collector's Office
Lewisville Independent School District Budget Office

Note: A typical property tax bill would consist of the City, School District and County taxes.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

	2017		2008	
Taxpayer	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
MP Shops at Highland Village, LLC	$ 70,000,000	3.472%	$ -	- %
DDR Highland Village, LP	45,897,709	2.277%	-	- %
HHSG, LLC	20,208,090	1.002%	-	- %
Wal-Mart Stores Texas, LP	18,016,482	0.894%	-	- %
Centro NP Holdings 12 SPE, LLC	11,956,227	0.593%	-	- %
ADV Highland Village Property Owner, LLC	8,694,112	0.431%	-	- %
Barnett Healthcare Prop, LLC	8,382,420	0.416%	-	- %
Wal-Mart Stores Texas, LP	6,052,217	0.300%	-	- %
CoServ Elecrtric Co-Op	5,668,680	0.281%	-	- %
HSM Highland Point S/C. LTD	5,560,000	0.276%	-	- %
Opus West, LP	-	- %	40,986,228	2.772%
Shops at Highland Village Dev., LTD	-	- %	17,863,647	1.208%
CenterAmerica Prop. Trust, LP	-	- %	8,386,037	0.567%
Barnett Healthcare Prop, LLC	-	- %	7,645,000	0.517%
Wal-Mart Stores Texas, LP	-	- %	6,173,358	0.418%
Chapel Springs Development, LTD	-	- %	5,863,766	0.397%
Celebrations Management, Inc.	-	- %	5,370,666	0.363%
CoServ Elecrtric Co-Op	-	- %	4,957,200	0.335%
Tabani Highland, LP P/S	-	- %	4,231,399	0.286%
Maples 40, LLC	-	- %	3,632,766	0.246%
Total	$ 200,435,937	9.942%	$ 105,110,067	7.109%

Source: Denton county Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2016 (fiscal year 2017) is $2,016,005,720

** Total taxable value including real and personal property for tax year 2007 (fiscal year 2008) is $1,478,574,809

TABLE 8

CITY OF HIGHLAND VILLAGE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	$ 8,407,508	$ 8,377,388	99.64%	$ 28,995	$ 8,406,382	99.99%
2009	9,359,745	9,315,842	99.53%	40,328	9,356,170	99.96%
2010	9,449,566	9,409,516	99.58%	38,189	9,447,705	99.98%
2011	9,331,792	9,311,956	99.79%	17,621	9,329,577	99.98%
2012	9,378,644	9,362,729	99.83%	13,630	9,376,359	99.98%
2013	9,315,832	9,293,267	99.76%	19,308	9,312,575	99.97%
2014	9,697,513	9,672,999	99.75%	19,360	9,692,359	99.95%
2015	10,201,729	10,176,515	99.75%	15,164	10,191,679	99.90%
2016	10,853,080	10,824,025	99.73%	17,694	10,841,718	99.90%
2017	11,572,279	11,546,650	99.78%	-	11,546,650	99.78%

Sources: Denton County appraisal District and Denton County Tax office.

Notes: Tax levy includes adjustments and supplements made to the property roll during the fiscal year.
Delinquent collections do not include penalty and interest.

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

	Governmental Activities				Business-type Activities					
Fiscal Year	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Capital Lease Obligations	Tax Note	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Capital Lease Obligations	Total Primary Government	Percentage of Personal Income*	Per Capita*
2008	$ 17,752,581	$ 4,316,276	$ 213,066	$ -	$ 1,808,962	$ 7,913,635	$ -	$ 32,004,520	5.38%	$ 2,032
2009	16,676,096	7,922,613	108,442	-	1,574,794	11,868,586	128,756	38,279,287	6.14%	2,415
2010	15,448,553	7,428,791	-	-	1,330,983	11,288,976	87,448	35,584,751	5.59%	2,212
2011	14,238,460	6,879,970	-	-	1,001,994	10,644,363	44,550	32,809,337	5.48%	2,144
2012	13,024,524	9,237,414	-	-	5,339,572	5,262,868	-	32,864,378	4.97%	2,106
2013	11,865,589	8,644,049	-	-	4,771,815	5,030,763	-	30,312,216	4.47%	1,979
2014	10,880,294	15,080,339	-	-	4,373,046	9,345,362	-	39,679,041	5.31%	2,572
2015	9,768,359	14,319,664	503,506	-	3,726,715	9,097,385	-	37,415,629	4.77%	2,351
2016	9,547,809	12,683,991	632,670	1,535,000	3,070,385	8,839,408	-	36,309,263	4.50%	2,290
2017	10,789,888	9,511,276	384,078	1,420,000	6,451,947	4,554,089	-	33,111,278	3.87%	2,068

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding: General Obligation Bonds	Certificate of Obligation Bonds	General Bonded Debt Outstanding	Less Debt Service Resources Available	Net General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	Per Capita
2008	$ 19,561,543	$ 12,229,911	$ 31,791,454	$ 371,198	$ 31,420,256	2.13%	$ 1,995
2009	18,250,890	19,791,199	38,042,089	365,943	37,676,146	2.33%	2,377
2010	16,779,536	18,717,767	35,497,303	341,419	35,155,884	2.12%	2,185
2011	15,240,454	17,524,333	32,764,787	349,270	32,415,517	2.02%	2,118
2012	18,364,096	14,500,282	32,864,378	354,029	32,510,349	1.97%	2,084
2013	16,637,404	13,674,812	30,312,216	160,157	30,152,059	1.84%	1,969
2014	15,253,340	24,425,701	39,679,041	168,040	39,511,001	2.33%	2,561
2015	13,495,074	23,417,049	36,912,123	154,343	36,757,780	2.04%	2,310
2016	12,618,194	21,523,399	34,141,593	59,725	34,081,868	1.77%	2,149
2017	17,241,835	14,065,365	31,307,200	99,242	31,207,958	1.55%	1,949

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See Table 5 for property value data.

See Table 14 for population data.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2017

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
County of Denton	$ 645,305,000	2.576%	$ 16,623,496
Lewisville Independent School District	1,365,057,248	6.751%	92,150,732
Subtotal overlapping debt			108,774,228
City of Highland Village (direct debt)	22,105,242	100.0%	22,105,242
Total direct and overlapping debt			$ 130,879,470

Sources:

Assessed value data used to estimate applicable percentages provided by the Denton County Appraisal District. Debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Highland Village, Texas. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

TABLE 12

CITY OF HIGHLAND VILLAGE, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2017	
Assessed value	$ 2,016,005,720
Debt limit ($2.50 per $100 of assessed value)	50,400,143
Debt applicable to limit:	
Tax supported debt	2,624,022
Less: Amount set aside for repayment of general obligation debt	(99,242)
Total net debt applicable to limit	2,524,780
Legal debt margin	$ 47,875,363

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	$ 36,964,437	$ 40,433,227	$ 41,453,047	$ 40,137,937	$ 41,202,091	$ 40,893,505	$ 42,366,121	$ 44,936,812	$ 48,033,391	$ 50,400,143
Total net debt applicable to limit	1,517,857	1,909,108	2,308,177	2,231,680	2,262,042	2,369,304	2,478,463	2,842,629	2,495,691	2,524,780
Legal debt margin	$ 35,446,580	$ 38,524,119	$ 39,144,870	$ 37,906,257	$ 38,940,049	$ 38,524,201	$ 39,887,658	$ 42,094,183	$ 45,537,700	$ 47,875,363
Total net debt applicable to the limit as a percentage of debt limit.	4.11%	4.72%	5.57%	5.56%	5.49%	5.79%	5.85%	6.33%	5.20%	5.01%

Note:

According to The State of Texas Constitution, Article 11, Section 5, provides in part that, "…no tax for any purpose shall ever be lawful for any one year, which shall exceed 2.5% of the taxable property of such city." As a home rule city, the City of Highland Village is not limited in the amount of debt it may issue.

TABLE 13

CITY OF HIGHLAND VILLAGE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

	Water and Wastewater System Revenue Bonds						
		Less:	Net	Debt Service			
Fiscal Year	Total Revenues	Operating Expenses	Available Revenue	Principal	Interest	Total	Coverage
2008	$ 7,695,954	$ 5,658,275	$ 2,037,679	$ 930,248	$ 416,634	$ 1,346,882	1.51
2009	7,703,794	5,901,886	1,801,908	708,043	450,115	1,158,158	1.56
2010	7,431,980	6,751,790	680,190	877,687	599,289	1,476,976	0.46
2011	9,098,999	6,725,115	2,373,884	958,329	499,271	1,457,600	1.63
2012	8,775,422	8,517,784	257,638	995,000	348,478	1,343,478	0.19
2013	8,498,147	6,642,770	1,855,377	800,000	347,277	1,147,277	1.62
2014	8,116,969	7,284,308	832,661	840,000	398,349	1,238,349	0.67
2015	7,905,718	7,266,680	639,038	860,000	424,163	1,284,163	0.50
2016	8,030,237	7,271,123	759,114	880,000	402,788	1,282,788	0.59
2017	8,251,419	7,503,415	748,004	905,000	332,284	1,237,284	0.60

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Gross revenues do not include capital contributions. Operating expenses do not include interest, depreciation, or amortization

CITY OF HIGHLAND VILLAGE, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

Calendar Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2008	$ 15,750	$ 595,035,000	$ 37,780	5.0%
2009	15,850	623,158,600	39,316	7.5%
2010	16,090	636,713,480	39,572	7.1%
2011	15,305 *	598,930,565	39,133	6.9%
2012	15,602	661,072,342	42,371	5.6%
2013	15,315	677,964,420	44,268	5.4%
2014	15,429	747,797,343	48,467	4.2%
2015	15,915	784,959,630	49,322	3.4%
2016	15,859	807,096,228	50,892	3.6%
2017	16,012	855,857,412	53,451	3.1%

Source: U. S. Census Bureau
Texas Workforce Commission
Bureau of Economic Analysis

Note: Population estimates are based on residential sewer connections.
*2011 population estimates are based on 2010 census

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

	2017	2008
Employer	Employees	Employees
City of Highland Village	100 - 499	100 - 499
ExcelWipe, LLC	100 - 499	
Lewisville Independent School District	100 - 499	100 - 499
Walmart Supercenter	100 - 499	-
Whole Foods Stores	100 - 499	
AMC Highland Village 12	50 - 99	-
Delta Dental	50 - 99	
Excite Gymnastics & Cheer	50 - 99	
Home Instead Senior Care	50 - 99	-
Ihop Restaurant	50 - 99	-
Patrizio Restaurant	50 - 99	-
Re/Max Cross County	50 - 99	
Rosa's Café & Tortilla Factory	50 - 99	-
TJ Maxx	50 - 99	-
Lifes a Beach, Inc.	-	100-499
Excite! Gymnastics & Cheer LLC	-	50 - 99
Salerno Pizza Co	-	50 - 99
Pizza Café Inc.	-	50 - 99
Kid Country Inc	-	20 - 49
New Hemisphere Investments, Inc.	-	20 - 49
Prime Kids LLC	-	20 - 49
Marla R Conger MD PA	-	20 - 49
John R Ross Company Inc	-	20 - 49

Source: Texas Workforce Commission

TABLE 16

CITY OF HIGHLAND VILLAGE, TEXAS

FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government										
City manager	2	2	2	2	2	2	2	2	2	2
Finance	10	10	11	12	12	13	13	11	11	10
Human resources	3	3	3	3	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
Information Services	-	-	-	-	-	-	4	4	6	6
City Attorney	3	3	3	2	1	-	-	-	-	-
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	37	37	37	38	38	39	41	44	46	46
Fire	15	15	18	18	18	18	18	19	22	22
Community services	4	4	4	4	5	5	5	5	5	5
Streets and drainage	16	16	17	16	16	15	15	15	14	14
Parks and recreation	15	15	15	16	16	17	17	17	17	17
Water and wastewater	17	17	17	17	18	18	18	18	19	19
Highland Village Community Development Corporation	1	1	2	2	2	2	2	3	3	3
Total	129	129	135	136	137	138	144	147	154	153

Source: Various City departments

Notes: A fulltime employee is scheduled to work 40 hours per week (including vacation and sick leave).

CITY OF HIGHLAND VILLAGE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2008	2009	2010	2011
General government				
Open records requests processed	136	113	142	149
Court cases filed	1,988	2,369	3,182	2,704
Employee turnover (%)	10.00%	7.60%	9.80%	14.00%
Emp safety lost time injuries	1	-	1	2
Technical support tickets closed				
Community Service				
Permits issued	1,316	1,158	1,083	1,250
Inspections performed	4,039	2,468	3,398	2,911
Police				
Reported offenses	482	375	324	340
Arrests	280	298	307	321
Service	7,918	7,761	7,329	7,022
Close patrols	9,475	9,119	5,986	4,331
Traffic citations issued	1,592	2,342	3,670	2,480
Traffic warnings issued	2,685	3,192	3,857	4,626
Motor vehicle accidents	248	258	251	197
Animal impounds	*	*	360	216
Animal care calls	3,104	3,130	3,826	2,105
Animal registrations	907	844	1,148	580
Fire				
EMS calls	657	691	615	566
Fires calls	395	456	400	504
Streets and Drainage				
Drainage materials (ft.)	5,782	5,924	6,364	9,268
Asphalt (tons)	656	719	220	402
Concrete(yards)	187	59	102	937
Cold patch (lbs)	2,200	3,810	2,762	3,000
Crack seal (lbs)	9,190	20,853	6,295	21,558
Paint (gal)	176	175	140	301
Sod replacement (yards)	-	-	-	-
Saw cuttings	6,535	3,268	1,069	10,578
Spoils (yards)	*	1,979	1,639	577
Sign Repairs (hours)	*	139	532	700
Work orders completed (Maintenance)	2,286	2,028	713	534
Total fuel consumption	65,119	67,225	**47,984	65,789
Parks and recreation				
Acres of turf mowed	6,067	6,154	6,154	4,686
Parks turf maintenance				
Park maintenance (man hours)	*	*	*	*
Bags of trash disposed (55 gal)	5,734	5,800	5,800	4,898
Trash removal (man hours)	*	*	*	*
Recreation/Special Events Participation	16,235	24,940	25,041	30,342
Water				
New connections	54	18	28	33
Field operations work orders completed	5,492	8,001	7,305	5,379
Peak daily consumption	7,393,200	7,427,600	7,235,926	7,220,700
Maximum daily capacity-water production	7.54 MGD	7.54 MGD	7.54 MGD	6.46MGD
Number of gallons pumped	1,049,519,800	1,050,873,400	984,344,630	1,236,291,896
Number of gallons sold	977,399,700	952,105,000	888,988,200	1,188,799,975
Wastewater				
Wastewater work orders completed	1,209	1,399	1,396	1,148
Wastewater gallons pumped	427,173,000	413,215,000	577,082,000	462,414,000

Source: Various City departments

* Not available

**During Fiscal Year 2009-2010 the City's Fuel Station was not in use due to Facility Construction, therefore Total Fuel Consumption does not include 4 months

TABLE 17

2012	2013	2014	2015	2016	2017
184	220	240	224	281	288
1,220	2,284	1,962	1,524	1,782	1,518
16.00%	11.70%	10.70%	7.50%	11.70%	9.00%
-	1	2	-	-	-
			1,046	807	774
1,386	1,424	1,466	1,343	1,336	4,533
2,928	2,923	2,889	2,946	2,633	4,949
273	227	262	306	452	609
232	255	271	281	267	325
6,324	5,884	4,928	5,164	6,617	6,962
10,249	7,174	12,492	8,259	6,957	7,193
1,305	2,119	2,221	1,716	1,352	1,129
2,010	2,622	3,008	2,841	2,337	3,010
189	194	204	162	239	257
221	*	230	172	243	220
4,656	*	1,554	687	1,413	1,410
873	*	907	690	865	676
525	568	591	601	602	685
549	350	457	493	526	610
34,021	*	*	*	*	*
1,148	316	157	426	716	301
4,216	406	197	270	204	213
53	600	900	3,575	4,800	30,000
-	-	-	125	200	18,000
89	140	156	20	30	15
-	329	250	25	15	86
16,568	11,996	28,334	17,832	14,952	12,336
3,605	3,402	404	961	828	966
159	196	98	48	107	42
264	1,860	1,903	1,837	1,818	1,821
58,692	59,415	60,448	55,897	59,198	60,000
*	11,448	4,931	*	*	*
				6,525	6,525
5,126	6,525	*	24,012	23,899	23,950
*	7,200	6,160	8,260	*	*
1,253	2,816	*	2,816	2,816	2,920
19,798	20,894	22,608	20,288	19,051	29,603
59	15	16	17	37	26
14,822	16,687	9,815	10,675	10,815	10,596
8,099,400	6,780,300	6,929,900	7,500,000	7,500,000	7,500,000
6.93MGD	7.20MGD	7.20MGD	7.20MGD	7.20MGD	7.2MGD
1,094,066,900	1,162,636,600	1,044,346,300	1,056,000,000	991,177,900	928,836,200
1,070,560,100	1,152,288,922	934,653,200	1,008,000,000	931,105,700	888,844,700
1,620	1,123	4,156	4,867	4,740	4,678
446,910,000	374,111,518	381,156,000	604,500,000	572,924,000	425,469,000

TABLE 18

CITY OF HIGHLAND VILLAGE, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
City area (in miles)	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Streets and Drainage										
Streets (miles)	153.9	159.0	90.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Traffic signals	1	1	1	3	3	3	3	3	3	3
Parks and recreation										
Acres of parks	338	366	366	335	318	318	318	318	318	318.2
Trail system (linear miles)	2.7	6.7	6.7	6.7	7.1	10.0	11.7	11.7	12.7	12.7
Water										
Number of meters in service	5,276	5,294	5,322	5,357	5,416	5,422	5,439	5,456	5,483	5,521
Water mains (in miles)	93	94	95	100	100	100	98	99	100	100
Fire hydrants	729	739	741	754	766	770	780	780	811	815
Wastewater										
Storm sewers (miles)	25	25	38	23	23	24	24	25	25	25
Sanitary sewers (miles)	90	91	92	98	98	98	98	98	99	99
Sewer connections	5,085	5,103	5,121	5,119	5,212	5,218	5,235	5,253	5,276	5,307

Source: Various City departments

COMPLIANCE

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor
and City Council of
City of Highland Village, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Highland Village, Texas' basic financial statements, and have issued our report thereon dated March 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Highland Village, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Highland Village, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Highland Village, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highland Village, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 26, 2018